Asset allocation and wealth creation

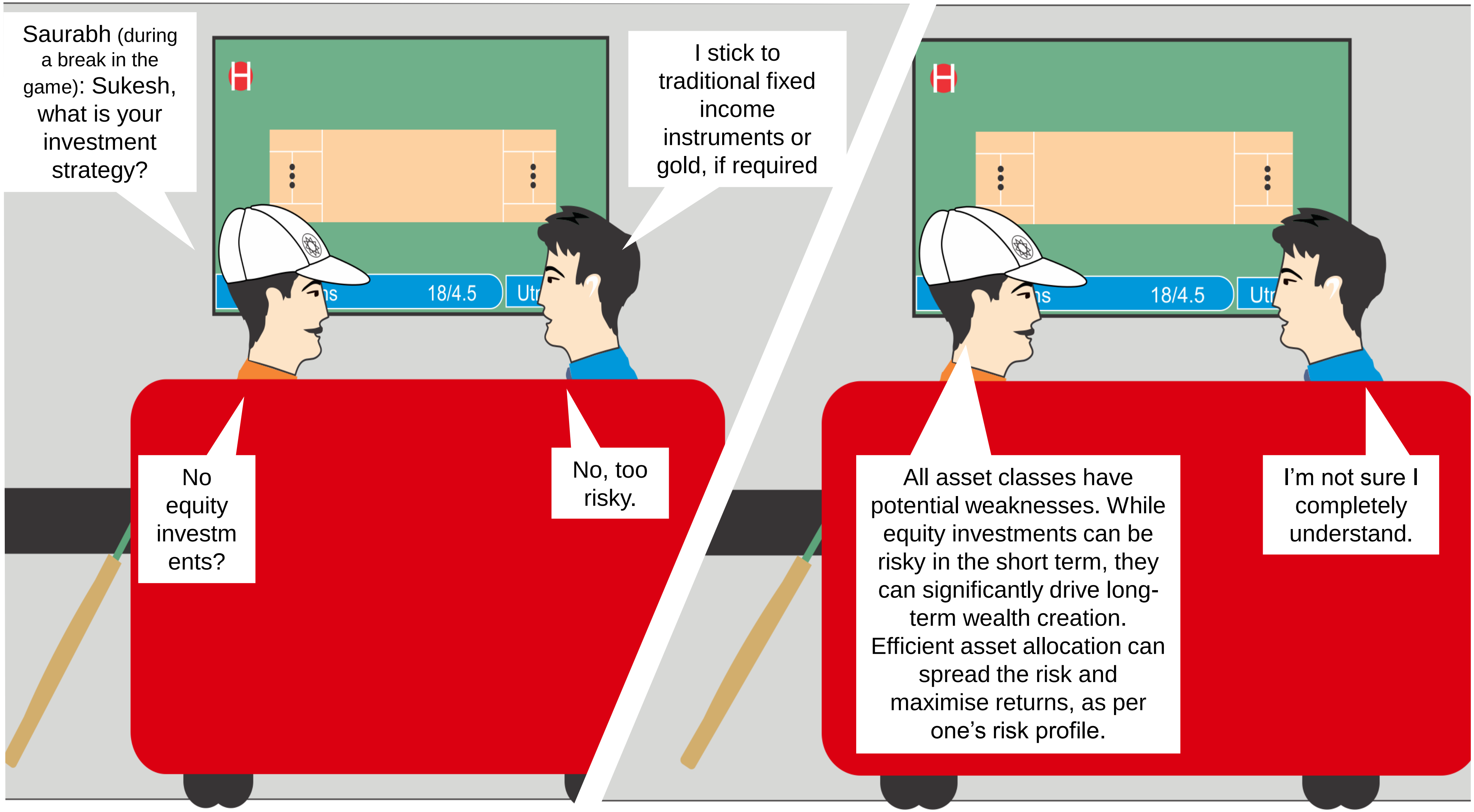
March 2020

HSBC
Global Asset
Management

An Investor awareness program initiative

Asset allocation- Diversify your portfolio like a winning cricket team

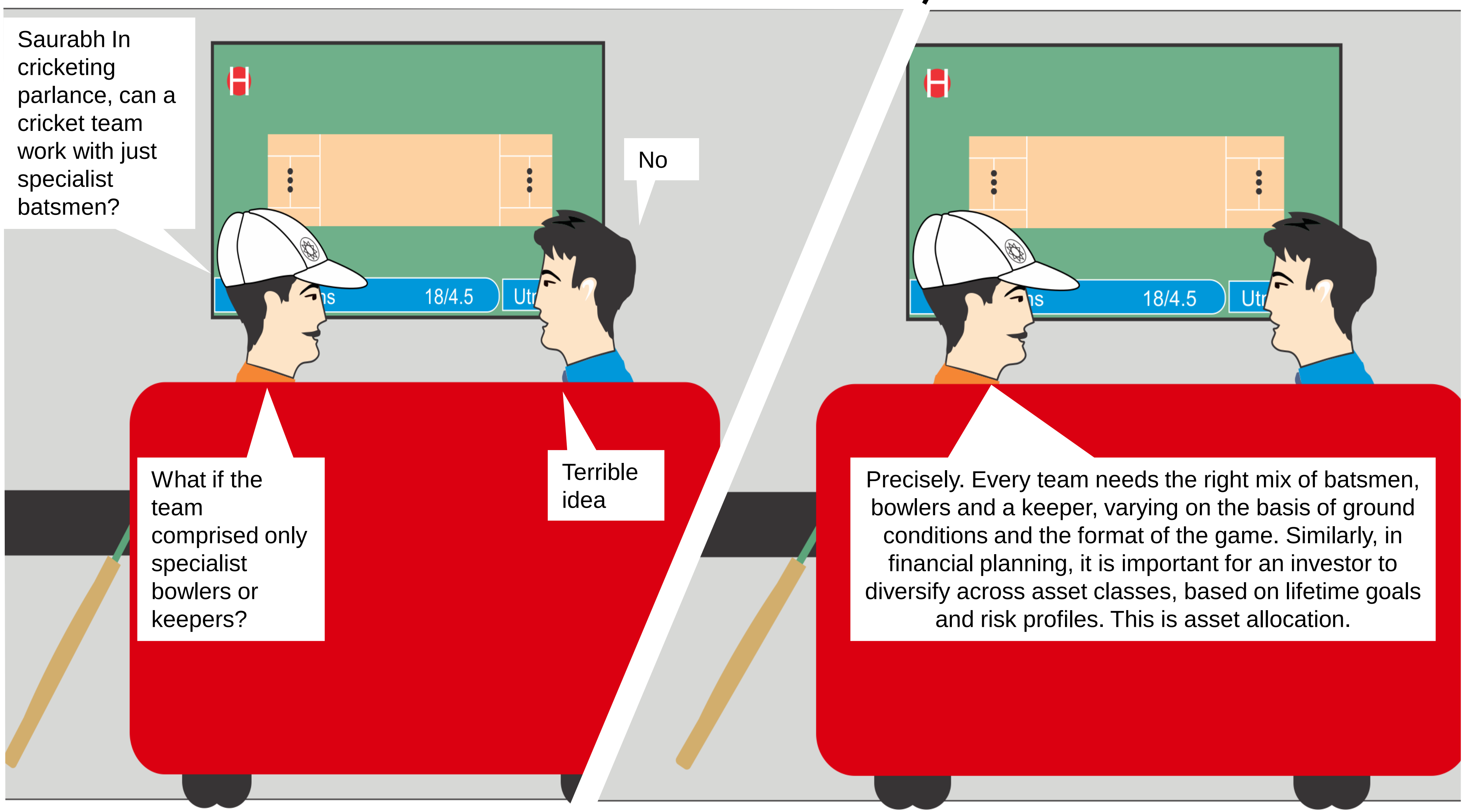
Saurabh and Sukesh are watching a cricket match when…



Past performance may or may not sustain and does not guarantee future performance.

Asset allocation- an imperative for successful financial planning

Diversify your portfolio like components of a cricket team



Past performance may or may not sustain and does not guarantee future performance.

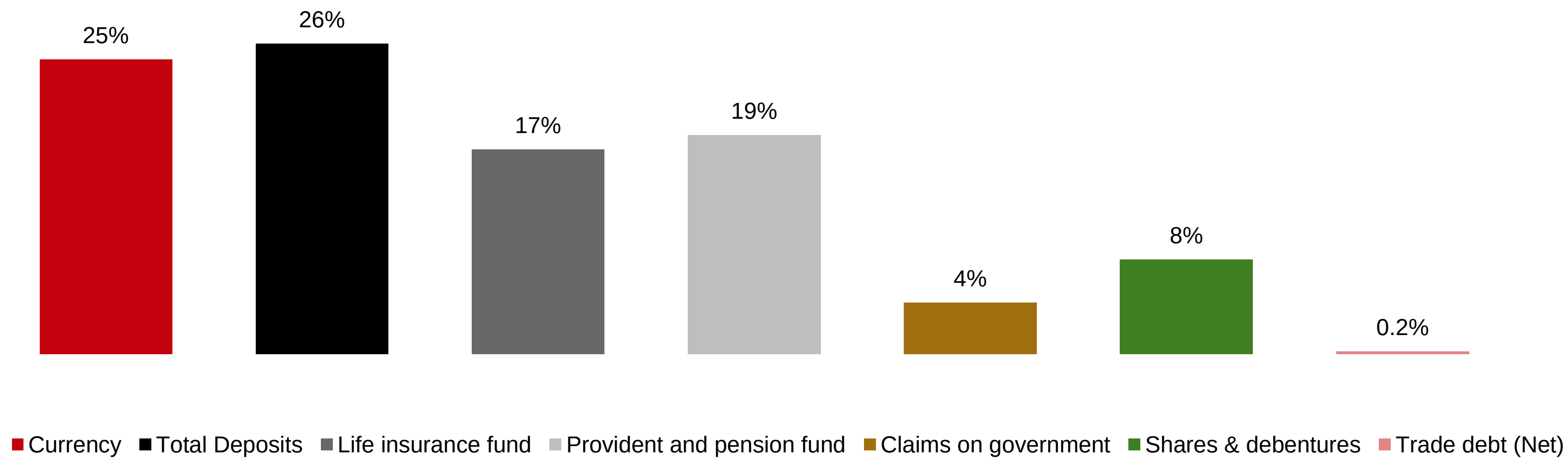
The status of investment allocation in India

HSBC Global Asset Management

Fixed income bias

- Traditionally, Indians have favoured debt investments, primarily bank fixed deposits
- Post office savings schemes and provident funds (public and employee) follow closely in popularity
- The fixed instrument bias is reflected in India's household savings data
  - Deposits and cash account for ~50% of total gross financial savings of the average Indian household

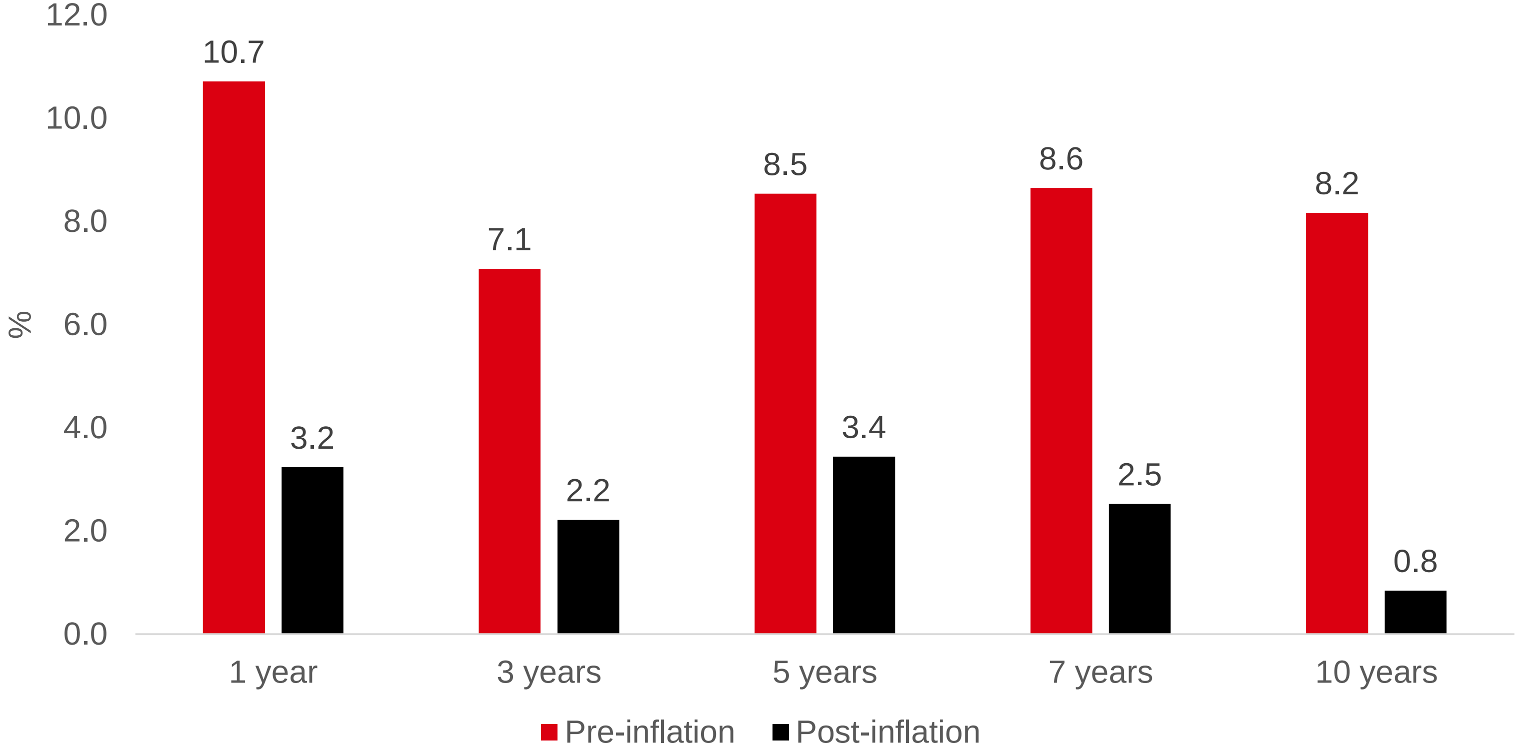
Component of household financial savings



Source: RBI
Data as of FY18

Debt might not offer adequate inflation-adjusted returns

Inflation tends to erode returns from fixed income instruments, resulting in low real return (post inflation) in the hands of the investor



Debt represented by Crisil Composite Bond Fund Index, nflation represented by average of annual CPI-IW inflation.

Data as of December 31, 2019, CPI-IW inflation as of November 2018

Source: Labourbureau.nic.in, CRISIL Research

Past performance may or may not sustain and does not guarantee future performance.

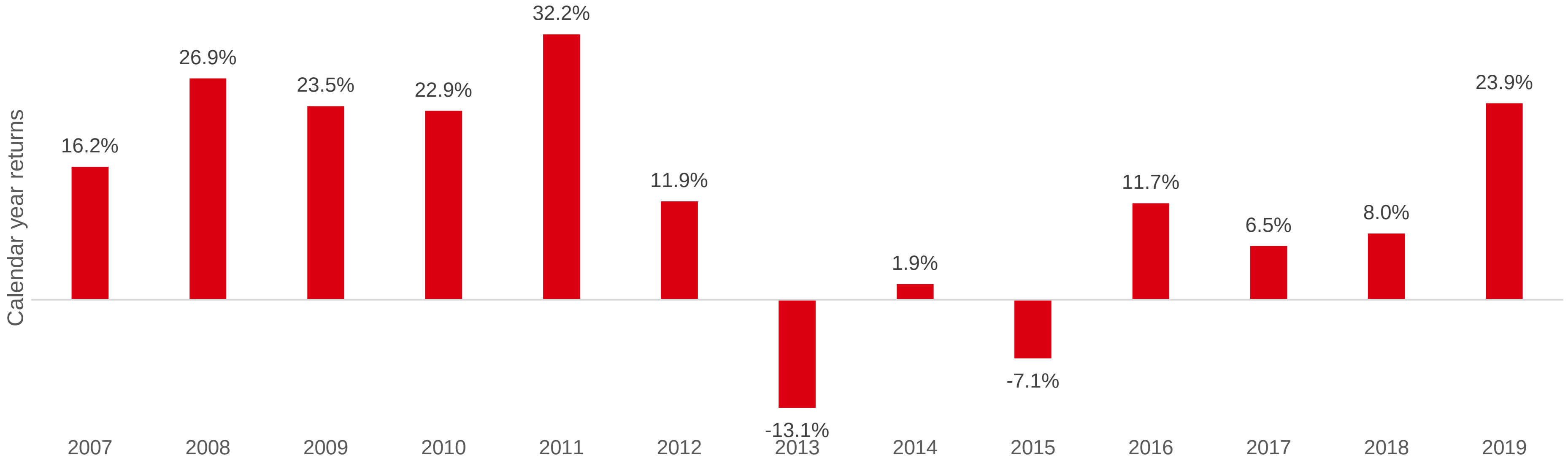
What about physical assets?

HSBC Global Asset Management

Gold, commodities and real estate

- Gold: Allocate in moderation
  - While this asset class tends to have a positive growth trajectory in the long term, it is prone to short-term fluctuations i
  - Investors should invest in gold in moderation, primarily for portfolio diversification and as a hedge in case of an economic slowdown / recession
- Real estate: Tough to call, with significant risks
  - Project delays
  - Title
  - Illiquid
  - Varied returns
- Commodities: Regulations still evolving

Gold – Fluctuating returns, potential hedge against economic slowdowns or recessions



Source: CRISIL Research, Gold prices represented by CRISIL Gold Index, data as December 2019

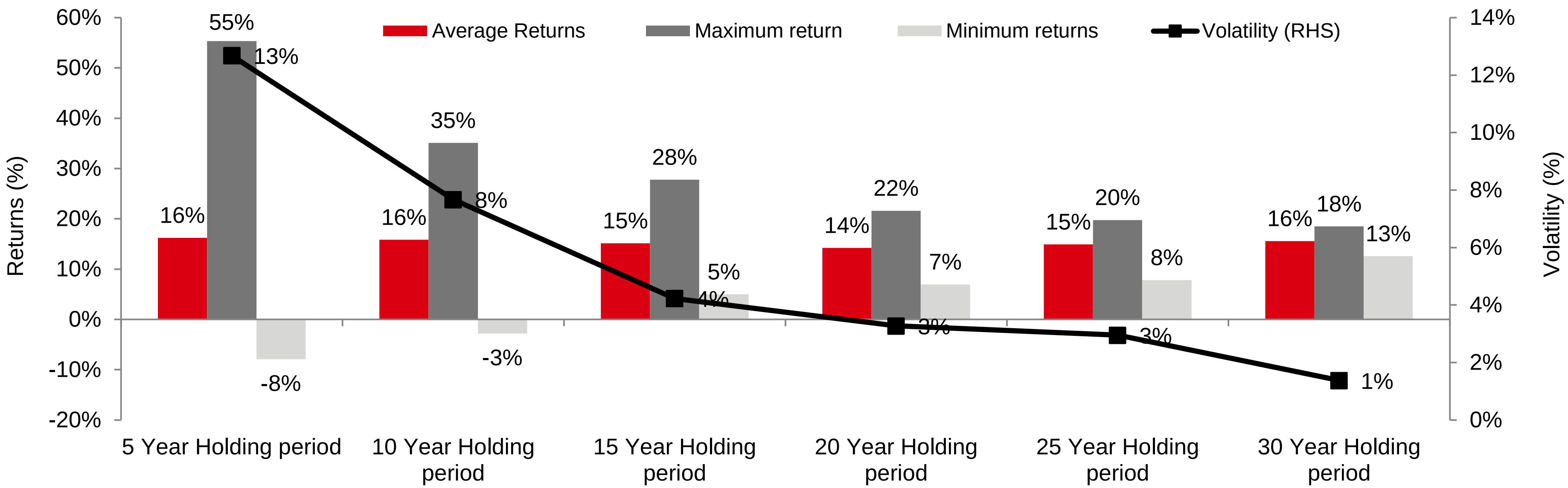
Past performance may or may not sustain and does not guarantee future performance.

Is equity the answer?

Equity – Volatile short-term, attractive long-term potential

- While equity is a good investment instrument for a young populace, the asset class is only beneficial in the long term
  - Equity is exposed to volatility in the short term
- It can be observed from the returns distribution chart below that as the investment horizon increases, the percentage of positive returns increases
- Similarly, it can be observed from the holding period returns chart that there are no negative returns for investment period above 15 years
- Another benefit of long-term investing is that volatility decreases with the increase in the investment horizon

Holding period returns



Source: BSE, CRISIL Research

Average annualised returns on daily rolling basis since inception (1979) of S&P BSE Sensex considered across various holding periods

Data as of December 31, 2019

Past performance may or may not sustain and does not guarantee future performance.

What should an investor do?

Asset allocate

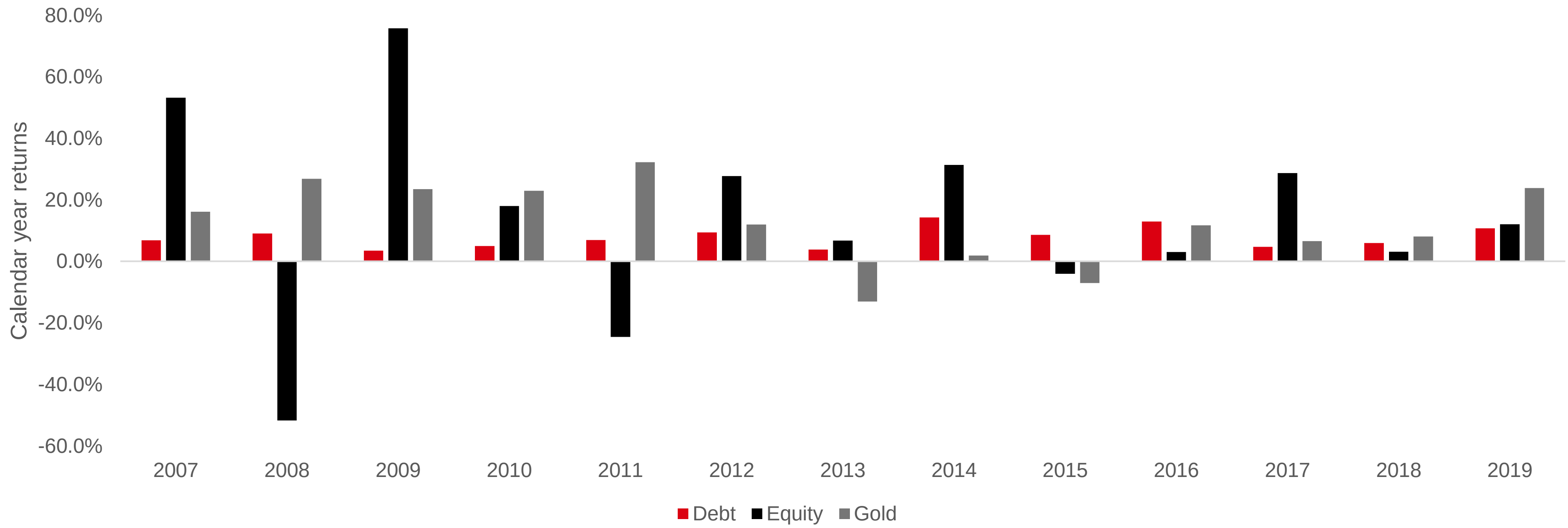
- The basic premise of asset allocation is -
  - To spread risk from higher to lower risk asset classes
  - To maximise risk-adjusted returns, as per the risk profile
- Asset allocation is an investment strategy to determine how much of one’s portfolio is to be invested in different asset classes, depending on one’s risk-taking ability and financial goals
- Asset allocation can help meet financial goals and maximise wealth

What does performance history suggest?

Annual performance of asset classes

- Different asset classes tend to outperform each other across different time periods
- Allocating funds solely to a single asset class is not prudent as it may not garner efficient inflation and risk-adjusted returns
- Different levels of correlation among different asset classes provide the portfolio with an effective hedge

The best asset changes every year



Equity represented by Nifty 50, Debt represented by Crisil Composite Bond Fund Index and gold represented by CRISIL Gold Index

Source: NSE, CRISIL Research

Past performance may or may not sustain and does not guarantee future performance.

Asset allocation reduces volatility, better risk adjusted returns

- To test the benefit of asset allocation, we compared the returns, volatility and risk adjusted returns of equity, debt, gold in solitary and compared it with an asset allocation combination of all the three asset classes in 40:40: 20 ratio respectively since 2007.
- And the results are there to see, the asset allocation combination does well on all three parameters – returns, volatility and risk adjusted returns.

Asset allocation versus solitary asset class performance

	Equity (100%)	Debt (100%)	Gold (100%)	Equity (40%) / Debt (40%) / Gold (20%)
Returns	8.92%	7.77%	11.95%	9.94%
Volatility	21.6%	2.8%	17.3%	9.3%
Risk adjusted returns	0.14	0.64	0.34	0.42

Equity represented by Nifty 50, Debt represented by Crisil Composite Bond Fund Index and gold represented by CRISIL Gold Index

Source: NSE, CRISIL Research

Analysis done for illustration purposes only, asset allocation will vary based on the individual's risk return profile and investment horizon

Past performance may or may not sustain and does not guarantee future performance.

Goal based asset allocation the way to approach

HSBC
Global Asset
Management

Why switch to goal-based asset allocation?

- The goal-based approach involves investing to achieve specific goals (small, medium and long-term) by allocating money to different asset classes in sync with one's risk capacity and time horizon
- Let's take the hypothetical case of a young professional
  - His/ her priorities across different time horizons are captured in the table below
- Based on that he/ she can allocate funds across asset classes

Priority		Short term	Medium term	Long term
	Want	Goal – Buying a car Investment objective – Stability Asset allocation – Moderately conservative	Goal – Buying a vacation home Investment objective – Stability and growth Asset allocation – Moderately aggressive	Goal – Foreign vacation, estate planning Investment objective – Growth Asset allocation – Aggressive
	Need	Goal - Child care expenses, down-payment for home Investment objective – Stability Asset allocation – Conservative	Goals – Children's education, old-age parent care Investment objective – Stability and growth Asset allocation – Moderate	Goals – Retirement, Children's marriage Investment objective – Growth Asset allocation – Moderately aggressive
		Time horizon		

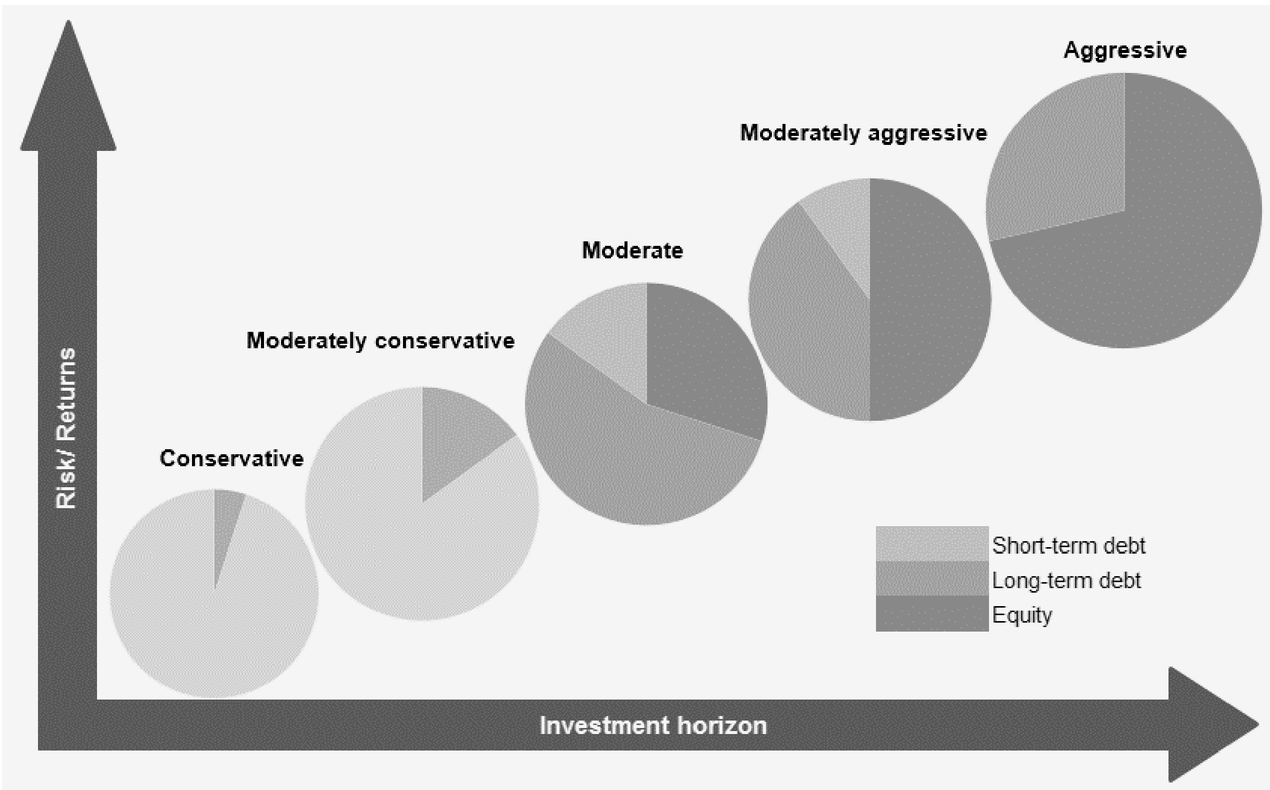
For representation purpose only, it may differ on a case-to-case basis)

Past performance may or may not sustain and does not guarantee future performance.

Why risk profiling?

Asset allocation as per risk profile

- Risk profiling involves investors assessing themselves on various parameters to evaluate their risk-taking capacity and accordingly allocating money to different asset classes
  - Usually, risk profiling is undertaken via a formal questionnaire-based process where investors answer questions that probe their goals, risk-taking capacity and suitability



For representation purpose only, it may differ on a case-to-case basis)

Past performance may or may not sustain and does not guarantee future performance.

Why risk profiling?

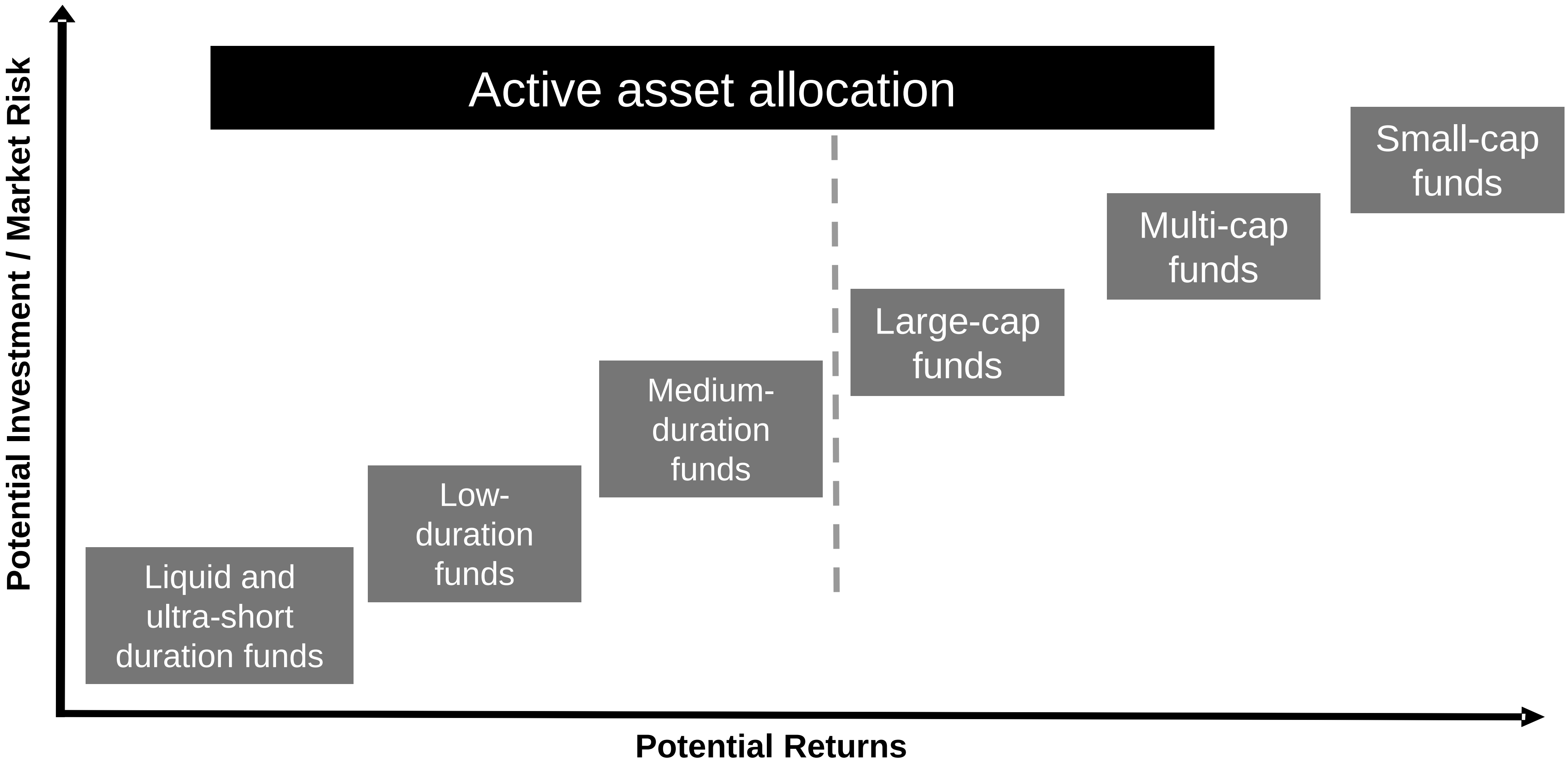
Asset allocation as per risk profile

- Investors may not have the wherewithal to manage their money and allocate assets across asset classes
- Further, allocation is not just between asset classes but within an asset class as well
  - Equity sub-asset allocation based on market cap (large, mid and small) and sector or theme-based
  - Debt sub-asset allocation based on maturity (short and long-term)
- Professional management is a viable option
- Investments can be routed through mutual funds
- Benefits of mutual funds
  - Professional management – A dedicated team helps better analyse investment opportunities in the market
  - Research and credit function – An independent research and credit function aids investment
  - Focused risk management – Imperative to manage inherent risks in asset classes

Mutual funds- Easy risk profile-based investing

Mutual funds available as per an investor's risk-return profile

- Mutual funds offer a variety of funds in each asset class and investors can choose funds based on their risk-return objectives and time horizons



Note: For debt funds potential risk involved indicates interest rate risk and is not an indicator of credit risk. Note – Select fund categories are listed in above chart, Investment horizon given above is only indicative and gives a general idea on ideal investment period

Past performance may or may not sustain and does not guarantee future performance. Mutual fund investments are subject to market risks, read all scheme related documents carefully.

Takeaways

Asset allocation impact:

- Lowers volatility
- Encourages stable investor behavior and potentially better results
- Rebalancing - a key supporting factor

Asset allocation is an excellent tool to address the volatility in investment markets

Disclaimer

This document has been prepared by HSBC Asset Management (India) Private Limited (HSBC) for information purposes only and should not be construed as an offer or solicitation of an offer for purchase of any of the funds of HSBC Mutual Fund. All information contained in this document (including that sourced from third parties), is obtained from sources HSBC, the third party believes to be reliable but which it has not independently verified and HSBC, the third party makes no guarantee, representation or warranty and accepts no responsibility or liability as to the accuracy or completeness of such information. The information and opinions contained within the document are based upon publicly available information and rates of taxation applicable at the time of publication, which are subject to change from time to time. Expressions of opinion are those of HSBC only and are subject to change without notice. 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 financial advice regarding the appropriateness of investing in any securities or investment strategies that may have been discussed or recommended in this report and should understand that the views regarding future prospects may or may not be realized. Neither this document nor the units of HSBC Mutual Fund have been registered in any jurisdiction. The distribution of this document in certain jurisdictions may be 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.

HSBC Asset Management (India) Private Limited, 16, V.N. Road, Fort, Mumbai-400001

Email: hsbcmf@camsonline.com

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