

HSBC India Next Portfolio

PMS Product Note

January 2023

Which themes can benefit the most in economic revival?

CONSUMPTION		GLOCAL		DIGITISATION		HIGH ALPHA
<ul style="list-style-type: none"> Secular, high growth sector Conventional yet progressive theme 	+	<ul style="list-style-type: none"> Play on MNCs in India Structural, long term theme 	+	<ul style="list-style-type: none"> Disruptive and New age theme 	=	Disruptive themes combined with secular & progressive ones have great potential to deliver high alpha

High growth potential themes have potential to deliver superior & sustainable growth

HSBC India Next Portfolio (HINP)

Focus on Consumption | GLOCAL | Digitisation

Inception Date
18 February 2021

Minimum Application Amount
For (1) Fixed fee option and (2) Fixed & Performance-linked option = INR 5 million

Investment Objective
HSBC India Next Portfolio aims to generate returns and provide long term capital appreciation by investing in equity and equity related securities across market cap of businesses benefitting from transformation in Indian economy

Benchmark – S&P BSE 200
Rationale for selection of benchmark
The portfolio is being benchmarked against the BSE200 index since its composition is in line with the objective of the investment approach. The index is broad based and is most suited for comparing the performance of the portfolio

Fund Manager
Sheetalkumar Shah, Total Experience: 24 years, managing this portfolio since 18 February 2021

Indicative tenure or investment horizon
Medium to Long Term (3 years+)

Description of types of securities

- Equity and equity related securities including convertible bonds and debentures and warrants carrying the right to obtain equity shares.
- Derivative instruments as may be permitted by SEBI / RBI.
- Units of liquid funds/overnight funds of HSBC Mutual Fund. Cash and cash equivalents
- Any other instruments as may be permitted by RBI / SEBI / such other Regulatory Authorities from time to time

Investors should note that pursuant to SEBI circular no. SEBI/HO/IMD/DF1/CIR/P/2020/26 dated February 13, 2020, an option to invest directly i.e. without intermediation of persons engaged in distribution services, is available to the investors.

Portfolio Manager's commentary:

Global equities have experienced some serious turbulence in 2022 - from war, inflation shocks, interest rate hikes, energy crisis etc. Central banks are between a rock & a hard place as they continue to prioritize bringing down inflation regardless of the economic cost. Macro volatility may continue in near term as rates climb higher against persistent inflation. Markets are adjusting to the fact that like in the early 1980s, policymakers have adopted a whatever-it-takes approach to bring down inflation and recession risk is rising as a result.

Though India outperformed during calendar year 2022, Indian equity markets have not been immune to global macro headwinds, including rising interest rates, global supply chain issues and lingering recession risks. Geopolitics remain in focus as the Russia-Ukraine conflict and China covid issue add to uncertainty.

However, domestic macroeconomic conditions in India should continue to remain largely stable in 2023, with inflation at more comfortable levels than in developed nations. India is at an earlier stage in its economic cycle, with rising income and consumer penetration a tailwind to structural demand. India's corporate earnings have rebounded strongly, driven by pandemic effects, rising software exports and a clean-up of banks' balance sheets and this resilience should continue to provide an equity-market catalyst. The pace of corporate profits to GDP is now in an uptrend after persistently declining for more than a decade

The case for India's equities remains structurally positive, driven by double digit compounded annual profit growth over the next three years, as nominal GDP growth looks robust, structural reforms continue and corporate capex increases. With quite a lot of bad news already factored in, potential for further downside is more limited than at start of 2022.

Our portfolio has underperformed the benchmark index during last six months. Since June lows, markets rebounded sharply led by financials. Our portfolio construct is developed around three structural themes consumption, Digital & Glocal, that have not participated meaningfully in this leg of market movement. Some of the companies in the portfolio faced input cost pressures & demand slowdown. However, we are pretty confident that these companies being leaders in their respective business segments and have strong balance sheet, will be able to withstand these external pressures and emerge much stronger in the long run. Having said, we are closely monitoring all the companies in the portfolio and will reshuffle the portfolio if required to generate superior risk adjusted return. The upcoming 3Q results and subsequent management commentary will be closely evaluated to rebalance the portfolio.

Top 10 Holdings

Name	Weight	Theme	ROE (FY22e)	EPS CAGR (2Yrs)
STATE BANK OF INDIA	7.27	Consumption + Digital	11.9	38.6
INFOSYS LTD	6.00	Digital	29.1	14.8
RELIANCE INDUSTRIES LTD	5.79	Digital + Consumption	8.2	20.5
TITAN CO LTD	5.70	Consumption	25.9	27.7
J.B. CHEMICALS & PHARMA LTD	5.23	Consumption	19.5	23.0
BAJAJ FINANCE LTD	5.23	Digital + Consumption	17.4	26.3
HDFC BANK LIMITED	5.15	Consumption + Digital	16.7	17.2
CRISIL LTD	5.03	GLOCAL	32.2	14.7
TIMKEN INDIA LTD	4.93	GLOCAL	21.8	21.7
MARUTI SUZUKI INDIA LTD	4.77	GLOCAL + Consumption	7.1	17.9

Performance*	1 Month	3 Months	6 Months	1 Year	Since Inception
Portfolio (HINP)	-3.10%	0.99%	11.47%	0.90%	12.13%
S&P BSE 200	-3.27%	4.38%	15.27%	4.18%	11.04%

Source – Bloomberg, Returns over 1 year are annualized. Returns are adjusted for inflows/outflows. The above information is for general information 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 portfolio may or may not have any future position in these stocks.

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Basis of selection of types of securities

The investment approach is to create long term wealth for investors by participating in companies from sectors that are likely to be beneficiaries of transformation in the Indian economy including themes such as, digitization, consumption, GLOCAL i.e. Global companies working in local markets, etc. The portfolio manager intends to do the same by buying equities of these businesses and hence, equity and equity related securities are chosen for investment. The portfolio manager may, from time to time, invest un-deployed funds in units of liquid funds/ overnight funds of HSBC Mutual Fund including cash and cash equivalents for cash management purposes

Allocation of portfolio across types of securities

Instruments	Indicative Allocation (% of assets)	
	Minimum	Maximum
Equity and equity related securities	95%	100%
Units of liquid funds/overnight funds of HSBC Mutual Fund including cash and cash equivalents	0%	5%

Why invest in HSBC India Next Portfolio (HINP)?

Fueled by focused themes

The portfolio aims to gain by focusing on the select themes such as Consumption, GLOCAL and Digitisation in a more concentrated manner that can propel growth.

Growth with new age portfolio

HINP's allocation to Discretionary spending can offer above average growth over a long term. Allocation to Digitisation adds new age investment ideas.

Earning visibility

Expected earnings acceleration can offer high alpha generation opportunities effectively.

High conviction and concentration

High conviction and concentrated portfolio of HINP can provide high alpha generation opportunities with our portfolio construction process and TVSQ strategy. (TVSQ – Dominant Themes, Reasonable Valuations, Scalability & Sustainability and Management Business Quality)

Risk associated with investment approach

Deployment of monies under the investment strategy will be oriented towards equity and equity related securities of companies belonging to themes/sectors that are likely to be beneficiaries of transformation in the Indian economy including themes such as digitization, consumption, GLOCAL i.e. Global companies working in local markets, etc. and hence will be affected by risks associated with these industries as well as any factors that affect the broader macro-economic environment such as interest rate changes, liquidity, cross border fund flows, statutory/regulatory changes etc.

Since the portfolio is expected to be concentrated with exposure to select themes/sectors, it may perform differently from the broader stock markets/benchmark, but may still be impacted by broad market movements. It is likely that the portfolio may also experience period of volatile performance and liquidity challenges in view of the limited number of stocks invested in by the fund manager.

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Sector Allocation

Sector Name	% of Net Assets
Financials	26.48
Consumer Discretionary	13.61
Industrials	11.68
Information Technology	10.36
Materials	8.22
Energy	5.79
Health Care	5.23
Real Estate	4.62
Communication Services	4.31
Consumer Staples	4.25

Market Capitalisation

Large Cap:	47.96%
Mid Cap:	33.77%
Small Cap:	12.84%
Avg. Weighted Market Capitalisation Rs.299,729 Cr	
Median Market Capitalisation Rs.56,855 Cr	
Large Cap:1st 100 company in terms of full market capitalization. Mid Cap: 101st to 250th company in terms of full market capitalization. Small Cap: 251st company onwards in terms of full market capitalisation.	

Portfolio Fundamentals & Attributes

Dividend yield FY22	0.8%	2 year EPS CAGR	29.4%
P/E FY22	50.2x	RoE FY22	32.0%
P/E FY23 estimates	35.2x	Beta:	0.9

2 years EPS CAGR: FY22 – 24, Data as on 31 December 2022

Investment Strategy

The portfolio strategy endeavors to capitalize on long term wealth creation opportunity by investing in select high growth potential businesses from sectors that are likely to be beneficiaries of transformation in the Indian economy including themes such as Digitisation, Consumption, GLOCAL i.e. Global companies working in local markets, etc. The portfolio would be market cap agnostic and would focus on select themes with potential to deliver alpha over medium to long term.[^]

However, it is expressly clarified that clients are not being offered any guaranteed / assured returns and that the Portfolio Manager only endeavors to meet the investment objective

HSBC India Next Portfolio offers high conviction, concentrated investment portfolio focused on sectors that are likely to be beneficiaries of transformation in the Indian economy

Data as on 31 December 2022 [^] The Portfolio Manager may also participate in the Securities Lending Scheme. **Portfolio Disclaimer:** The portfolio attributes of the investment approach mentioned above are based on all clients' portfolios existing as on the date stated above, excluding any temporary cash investments, and does not represent the model portfolio being offered to the clients, including prospective clients, and hence it is possible that these stocks may not be part of the portfolios constructed for new clients. The above information are for illustrative purpose only and it should not be considered as investment recommendation or advice or opinion from the Portfolio Manager on the above mentioned stocks/sectors. In no event shall the Portfolio Manager, its directors or employees or its affiliates have any liability for any financial impact to the recipient on account of use of the above information.

***Past performance may or may not be sustained in future.** Time weighted - Daily valuation method is used for rate of return calculation. Returns up to 1 year are absolute & over 1 year are Compounded Annualized. The performance disclosed above is based on all clients' portfolios under the investment approach, existing as on the performance calculation date, using Time Weighted Rate of Return (TWRR) of each client. All cash holdings and investments in liquid funds are also considered for calculation of performance and the performance data is net of all fees and all expenses (including taxes). Since inception date stated above is the date on which the first client investment was made under the investment approach. Please note that the actual performance for a client portfolio may vary due to factors such as expenses charged, timing of additional flows and redemption, individual client investment restrictions, if any, etc. These factors may have an impact on client's portfolio performance and hence may vary significantly from the performance disclosed above. Neither the Portfolio Manager, nor its directors or employees shall in any way liable for any variation noticed in the returns of individual client portfolios. The performance related information provided herein is not verified by SEBI.