

HSBC India Next Portfolio

PMS Product Note

July 2022

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:

In the midst of geopolitical conflict & high inflationary environment, central banks' tightening measures have resulted into significant declines in major stock markets in the first half of the calendar year. Indian markets too continued to witness downward pressure due to rising inflation, interest rate hike and FII outflows.

The CPI inflation rate for May 2022 moderated from the 8 year high in April and came in at 7.04%. RBI raised the repo rate by 50 basis points to 4.9%, an increase for the second time in five weeks. Though inflation is a key concern now, monsoon revival, decline in crude oil and metal prices and base effect indicates peaking inflation and can trend lower in H2FY23.

Also higher rates don't derail equity returns if profit growth stays robust. Rising foreign-exchange coverage and exports may alleviate concerns over surging oil prices.

To rein-in pressures on widening twin deficits, the government announced higher import duty on gold, export taxes on petrol, diesel and ATF and cess on domestic crude oil production.

Most of high frequency indicators such as Google mobility index, E-way bills, railway freight, vehicle registrations are signaling nascent signs of economic revival for the current financial year.

Market will now focus on Q1FY23E earnings and management commentary. Indian equity valuations have corrected meaningfully with one year forward P/E multiple of 17.8x, at ten-year average level.

We utilized the recent market correction opportunity by deploying some cash in two existing portfolio companies namely Bajaj Finance & Teamlease Services. With strong revenue growth profile, market leadership position, agile business model and management quality, we are confident that these companies will deliver superior earnings growth in medium term.

Our investment approach is based on identifying the high quality companies where the business model not only drives long term value creation but also endeavors them to withstand challenging economic environments. We have selected companies that in our opinion demonstrate sustainable competitive advantages and have exposure to long term secular growth as opposed to focusing on near term economic cycles. In periods of economic shock, these are the types of companies that will be resilient and be able to ride out the ensuing volatility.

The key for investors is to be on the right side of India's changing economy, to look for the long-term growth opportunities at reasonable valuations. HINP portfolio aims to offer these attributes in the portfolio and hence gives us the confidence to deliver superior risk adjusted return over longer horizon.

Top 10 Holdings

Name	Weight	Theme	ROE (FY22e)	EPS CAGR (2Yrs)
RELIANCE INDUSTRIES LTD	6.58	Digital + Consumption	8.2	22.4
STATE BANK OF INDIA	6.15	Consumption + Digital	11.9	36.4
INFOSYS LTD	5.84	Digital	29.1	15.5
COROMANDEL INTERNATIONAL LTD	5.44	Digital	26.6	14.9
MARUTI SUZUKI INDIA LTD	5.36	GLOCAL + Consumption	7.1	15.9
TIMKEN INDIA LTD	5.11	GLOCAL	21.8	17.7
PHOENIX MILLS LTD	5.01	Consumption	4.1	16.5
HDFC BANK LIMITED	4.97	Consumption + Digital	16.7	17.8
BAJAJ FINANCE LTD	4.78	Digital + Consumption	17.4	25.9
TITAN CO LTD	4.74	Consumption	25.9	25.2

Portfolio Fundamentals

Dividend yield FY21	0.8%
P/E FY21	55.7x
P/E FY22 estimates	50.6x
P/E FY23 estimates	30.1x
2 year EPS CAGR	28.2%
RoE FY21	17.2%
RoE FY22	28.2%

Performance Attributes

Beta: 0.80

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2 years EPS CAGR: FY21 – 23e, Data as on 30 June 2022 Document Date - 8 July 2022

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	
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	19.53
Consumer Discretionary	13.76
Materials	12.91
Industrials	12.79
Information Technology	10.11
Energy	6.58
Real Estate	5.01
Health Care	4.71
Consumer Staples	4.23
Communication Services	3.51

Market Capitalisation

Large Cap:	50.77%
Mid Cap:	23.73%
Small Cap:	18.64%
Avg. Weighted Market Capitalisation Rs 277,863 Cr	
Median Market Capitalisation Rs 55,042 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.	

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

Performance*

	1 Month	3 Months	6 Months	1 Year	Since Inception
Portfolio (HINP)	-2.87 %	-7.91 %	-9.48 %	0.56 %	8.02 %
S&P BSE 200	-5.07 %	-9.65 %	-9.61 %	-0.17 %	4.01 %

Returns over 1 year are annualized. Returns are adjusted for inflows/outflows.

Data as on 30 June 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.