

HSBC India Next Portfolio

PMS Product Note

December 2023

Which themes can benefit the most in economic revival?

CONSUMPTION		GLOCAL		DIGITISATION		HIGH ALPHA
<ul style="list-style-type: none"> Secular 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 aim to have potential to deliver alpha

Growth themes may have potential to deliver 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: Primary - S&P BSE 500 TRI, Secondary - BSE 200 Index. **Rationale for selection of benchmark** – Primary Benchmark prescribed by APMI as mandated by SEBI to evaluate relative performance of the portfolio. It is as per market cap based methodology for equity strategy. Secondary benchmark – Since its composition is in line with the objective of the investment approach. Index is broad based and is also suited for comparing the performance of the portfolio.

Fund Manager

Sheetalkumar Shah, Total Experience: 27 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 Clause 2.3 of Master Circular for Portfolio Managers dated March 20, 2023, an option to invest directly i.e. without intermediation of persons engaged in distribution services, is available to the investors.

Portfolio Manager's commentary:

The domestic equity markets witnessed a strong rally in November month with gains across most indices. Weakening global bond yields, the decline in crude oil prices and expectations of a strong Q2FY24 GDP print underpinned the bullish mood in the Indian markets. FIIs have also joined the India market resurgence, flipping from sellers to net buyers after two months.

India's real GDP growth at 7.6% in Q2FY24 was much better than market expectations, led by strong investment growth. Over the next few quarters, robust corporate profitability trend will continue to keep growth numbers buoyant.

In the recently concluded state elections, the BJP has wrested all of the Hindi-speaking states (namely Rajasthan, Madhya Pradesh, and Chhattisgarh), far surpassing opinion poll results. These results will provide comfort to the markets as far as political stability is concerned. The 2QFY24 corporate earnings ended on a buoyant note with a widespread outperformance across aggregates driven by margin tailwinds. For benchmark index Nifty 50, the adjusted net profit increased by 25.6% yoy and adjusted EBITDA increased 22.6% yoy.

India's macro and micro fundamentals remain quite strong as indicated by the following factors: (1) 7.6% real GDP growth in 1HFY24 led by a robust print in manufacturing and investment sectors. (2) healthy corporate earnings: Nifty has delivered 1HFY24 earnings growth of 30% (3) The earnings momentum continues post 2QFY24 as well with Oct-Nov'23 seeing good high-frequency data points (GST collections, auto monthly numbers, power demand, PMI data). (4) Supportive global macros with rates peaking out, Brent crude in a benign range @ \$80 per barrel and stable bond yields.

We booked partial profit in Phoenix Mill & CRISIL Ltd and redeployed the money in DLF & Intellect Design during the month. With unwavering focus of our portfolio investments on high quality companies with resilient business models and durable growth prospects, we believe that fundamental outlook for the portfolio companies remain robust.

Top 10 Holdings

Name	Weight%	Theme	ROE (FY23) %	EPS CAGR (2Yrs)
STATE BANK OF INDIA	5.40	Consumption + Digital	16.7	2.3
TITAN CO LTD	5.22	Consumption	30.7	7.9
PHOENIX MILLS LTD	5.07	Consumption	17.8	(0.9)
J.B. CHEMICALS & PHARMA LTD	5.06	Consumption	17.8	11.0
MARUTI SUZUKI INDIA LTD	4.86	GLOCAL + Consumption	14.0	13.6
PERSISTENT SYSTEMS LTD	4.72	Digital	25.1	8.8
INFOSYS LTD	4.70	Digital	32.0	3.5
TATA COMMUNICATIONS LTD	4.67	Digital	146.9	2.8
CRISIL LTD	4.60	GLOCAL	33.5	5.3
BAJAJ FINANCE LTD	4.59	Digital + Consumption	23.5	10.0

Performance#	1 Month	3 Months	6 Months	1 Year	2 Years	Since Inception
Portfolio (HINP)	5.05%	4.64%	14.62%	19.32%	13.10%	16.38%
BSE 500 TRI ^	7.06%	6.19%	14.40%	13.44%	12.09%	14.96%
BSE 200 ^^	6.58%	5.64%	11.72%	9.70%	9.81%	12.25%

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. ^ Regulatory benchmark ^^ Secondary benchmark. Data as on 30 November 2023. #Refer page no. 2 for detailed disclaimer. To view the portfolio's performance relative to other Portfolio Managers, you may click here (APMI apmiindia.org).

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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%

* For cash management and pending deployment in the portfolio

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	24.00
Consumer Discretionary	17.90
Information Technology	13.45
Industrials	12.14
Real Estate	9.55
Health Care	5.06
Communication Services	4.67
Energy	4.37
Consumer Staples	3.61

Market Capitalisation

Large Cap:	50.58%
Mid Cap:	30.66%
Small Cap:	13.51%
Avg. Weighted Market Capitalisation	Rs.2,69,462Cr
Median Market Capitalisation	Rs.99,035Cr
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 FY23	0.7%	2 year EPS CAGR	25.0%
P/E FY24 estimates	36.7x	RoE FY23	26.5%
P/E FY25 estimates	30.10x	Beta:	0.90

2 years EPS CAGR: FY23 – 25, Data as on 30 November 2023

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

* 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 is 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.