HSBC
Asset Management

HSBC India Next Portfolio

PMS Product Note

August 2021

Which themes can benefit the most in economic revival?

CONSUMPTION		GLOCAL		DIGITISATION		HIGH ALPHA
• Secular, high growth sector • Conventional yet progressive theme	+	• Play on MNCs in India • Structural, long term theme	+	• 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 Fixed fee option = INR 5 million Fixed & Performance-linked option = INR 10 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:

The market touched an all-time high in July with an undercurrent in mid & small cap much better than large caps. Various high frequency indicators are indicating momentum in domestic economic recovery aided by unlocking theme, pick up in vaccination and monsoon progress.

Recent IPOs have rewarded handsomely to domestic investors. The successful listing of Zomato is an important mile stone for Indian equity markets. Apart from wealth creation from disruptive business model, Zomato's listing shows the strength, maturity and scale of domestic equity markets. This also the paves the way for more such start-up companies to list in India that will give an opportunity for domestic investors to participate in wealth creation in these new age companies.

1QFY22 earnings season is progressing well with benefit of lower base of 1QFY21, as lockdowns in 1QFY22 were localized and less stringent v/s 1QFY21. Management commentaries across the board suggest an improved demand environment post June'21, led by the easing of restrictions, lower active COVID-19 cases, and a pickup in vaccination.

Equity markets have been buoyant underpinned by multiple factors including benign interest rates, ample liquidity, expectations of higher corporate earnings growth, fiscal stimulus and supportive government policy measures. We are also seeing signs of increased manufacturing activity in India and greater acceptance of the government's "Make in India" initiative. In order to support the recovery, RBI is expected to continue with its accommodating monetary policy, even if inflation remains elevated.

Recent Chinese regulatory actions especially on tech companies will force global investors to re allocate their capital to country like India that provides longer growth runway & more predictable regulators in the long term. In the long run, India is likely to be beneficiary - less cyclical, less dependent on flows and more domestic in orientation.

We booked profit in one stock that has given handsome return in short span of time and looking to redeploy the cash in alternate promising idea. Our portfolio is constructed to be resilient across a range of plausible economic conditions, with an aim of generating positive long term returns.

Top 10 Holdings

Name	Weight	Theme	ROE (FY21)	EPS CAGR (2Yrs)
INFOSYS LTD	6.07	Digital	27.3	16.0
STATE BANK OF INDIA	5.43	Consumption+Digital	8.4	49.6
AMBUJA CEMENTS LTD	5.42	Glocal	10.1	23.2
COROMANDEL INTERNATIONAL LTD	5.02	Digital	28.1	19.2
RELIANCE INDUSTRIES LTD	4.92	Digital + Consumption	8.5	19.6
HDFC BANK LIMITED	4.75	Consumption+Digital	16.6	18.0
TITAN CO LTD	4.73	Consumption	13.7	13.1
BAJAJ FINANCE LTD	4.56	Digital+ Consumption	12.8	15.6
PERSISTENT SYSTEMS LTD	4.43	Digital	17.4	37.4
HONEYWELL AUTOMATION INDIA	4.31	GLOCAL+Digital	19.3	10.1

Portfolio Fundamentals

Dividend yield FY20	0.5%
P/E FY21	49x
P/E FY22 estimates	35x
2 year EPS CAGR	14.1%
RoE FY21	17.3%

Performance Attributes

Standard Deviation:	N.A.
Beta:	0.80
Sharpe Ratio:	N.A.

EPS CAGR – FY20 – 22e, Data as on 31 July 2021, Document Date - 8 August 2021

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)

Sector Allocation

Sector Name	% of Net Assets
Financials	18.72
Information Technology	14.81
Materials	13.79
Consumer Discretionary	12.55
Industrials	7.89
Energy	4.92
Consumer Staples	4.09
Health Care	4.03
Real Estate	3.48

Market Capitalisation

Large Cap:	52.53%
Mid Cap:	19.93%
Small Cap:	11.92%
Avg. Weighted Market Capitalisation	Rs 223,177 Cr
Median Market Capitalisation	Rs 74368 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

Performance*

	1 Month	3 Months	Since Inception
Portfolio (HINP)	4.01 %	15.49 %	14.90 %
S&P BSE 200	0.81 %	9.21 %	6.53 %

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

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 July 2021 ^ 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.

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.