

# HSBC Aspire Portfolio

PMS Product Note

October 2024

## Emerging themes from Mid and Small Cap stocks to lead in the next decade

Mid Cap stocks		Small Cap stocks		Large Cap stocks		Aspirational themes with High Alpha
Emerging set of companies with growth potential. Midcap universe offers access to growing pool of leaders.	+	Big opportunities through Small Cap stocks as they may offer valuation discount on account of under-researched / under-owned features	+	Well researched Large Cap stocks have visibility on earnings growth with proven business and track record	=	Aim to build a portfolio with aspirational themes that have potential to deliver alpha from a Mid & Small Cap stocks oriented Multi Cap Equity strategy

### Aspirational themes from Mid and Small Cap stocks with flavor of quality Large Cap stocks

**Inception Date :** 21 September 2023

#### Minimum Application Amount

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

#### Investment Objective

HSBC Aspire Portfolio aims to generate long-term capital growth from an actively managed portfolio of equity and equity related securities predominately from the mid and small cap companies. However, the approach would also have the flexibility to invest in companies across the entire market capitalization spectrum. There can be no assurance or guarantee the objective of the investment approach would be achieved

**Benchmark:** • Regulatory Benchmark/ Strategy

Benchmark: BSE 500 TRI

• Secondary Benchmark: Nifty MidSmall 400 Index

#### Rationale for selection of benchmark –

Regulatory Benchmark/ Strategy Benchmark: Benchmark prescribed by Association of Portfolio Managers in India (APMI) as mandated by SEBI to evaluate relative performance of the portfolio. This is decided by APMI as per market-cap based methodology for equity strategy. Secondary Benchmark: The portfolio is also being benchmarked against the Nifty MidSmall 400 Index since its composition is in line with the objective of the investment approach. The index comprises of mid and small cap companies and is also suited for comparing the performance of the portfolio.

#### Fund Manager

Sheetalkumar Shah, Total Experience: 27 years, managing this portfolio since 21 September 2023

#### Indicative tenure or investment horizon

Medium to Long Term (5 years+)

### HSBC Aspire Portfolio

HSBC Portfolio Management Services presents HSBC Aspire Portfolio, which aims to invest your money in emerging themes from Mid and Small Cap stocks which may lead in the next decade.

#### Portfolio Manager's commentary:

As we complete one year of Aspire strategy, we are delighted to take this opportunity to reflect on our portfolio performance, strategy and outlook. It has been a momentous year for Indian stock markets, especially small & midcap segment that has done exceptionally well (Nifty MidSmall cap 400 Index up 48%) during the last one-year period.

As we have seen in the past, midcap & small stocks have historically been wealth creators during rapid economic growth of Indian economy. Another redeeming future of this segment is that fundamentals of small & midcap segment have significantly improved over last few years. RoE of Nifty MidSmallcap 400 Index has improved from 6.5% in CY20 to 13.1% currently whereas earnings growth has been @ 19% CAGR over last four-year period. With significant outperformance especially during last 18-month period, there is concern on valuation of this segment which is valid to certain extent. We have constructed the portfolio of quality stocks that are leaders in their respective sectors, higher earnings growth profile with cash flow generation characteristics. Companies with strong moat, scalable businesses, efficient capital allocation and quality managements are potential wealth creators while minimizing risk of capital loss. There could be drawdowns in the market and we may also go through market gyrations in short term. However we are confident that over 3-5 year period, this portfolio should outperform the broader market significantly.

We have been conscious of risks involved in small & midcap segment. The portfolio is well diversified in terms of number of stocks and sectors. Our investment framework defines criteria in terms of selection of company based on management & business quality, earnings growth, healthy balance sheet, cash flow analysis, healthy return ratios & valuation comfort. We have followed disciplined approach of booking profits whenever our target price is reached and re invested that money in alternate promising investment idea. We have exited stocks such as Concord Biotech, Aegis Logistics, Arvind Fashions booking handsome profits. Partial profit booking was undertaken in few names e.g. JSW Energy, Voltas, 360 One WAM, JK Paper, Sansera Engg, WPIL. As on 30th September, we are holding 11% cash levels in the portfolio.

Aggregate earnings of Aspire strategy are expected to grow at 22.4% CAGR over FY24-26 period with RoE profile of 18.9% as on 31st March24. Going ahead, markets may remain volatile especially mid & small cap segment after sharp outperformance. Considering Indian economy prospects over longer term, curated portfolio of small & midcap stocks with sound investment framework offers great opportunities to create meaningful wealth over a longer period.

#### Top 10 Holdings

Name	Weight%
MAX FINANCIAL SERVICES LTD	4.34
GODREJ PROPERTIES LTD	3.66
VOLTAS LTD	3.54
FORTIS HEALTHCARE LTD	3.49
CASTROL INDIA LTD	3.33
ERIS LIFESCIENCES LTD	3.32
JINDAL STAINLESS LTD	3.31
HINDUSTAN FOODS LTD	3.25
SOMANY CERAMICS LTD	3.22
THOMAS COOK (INDIA) LTD	3.22

Performance#	1 Month	3 Months	6 Months	1 Year	Since inception (21/09/23)
Portfolio (HSAP)	1.68 %	3.60 %	24.82 %	38.69 %	37.22 %
BSE 500 TRI ^	2.09 %	7.65 %	20.20 %	41.11 %	38.49 %
Nifty MidSmallcap400 ^^	1.61%	7.28 %	26.60 %	48.47 %	47.16 %

Source – Bloomberg, Data as on 30 September 2024. 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. Data as on 30 September 2024. Investors should note that pursuant to Clause 2.3 of SEBI Master circular for Portfolio Managers dated June 7, 2024, investors have an option to invest directly i.e. without intermediation of persons engaged in distribution services.

^ Regulatory benchmark, ^^ Secondary benchmark,

Source – Bloomberg, Returns upto 1 year are absolute & over 1 year are Compounded 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. # 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](http://apmiindia.org))).

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Description of types of securities

Equity and equity related securities including convertible bonds and debentures and warrants carrying the right to obtain equity shares  
Derivatives 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

Allocation of portfolio across types of securities

The investment approach has the mandate to predominantly invest in Equity and Equity related instruments of mid cap and small cap companies. However, the investment approach has the flexibility to invest in companies across the entire market capitalization spectrum.

Risk associated with investment approach

Deployment of monies under the investment approach will be oriented towards equity and equity related securities of companies belonging to mid cap and small cap. Stocks of these companies usually have lower trading volumes on the exchanges, which may result into higher impact costs and longer execution time compared to large cap stocks. These companies tend to be less researched compared to large cap stocks and this may result into longer waiting period for the stock to reach their potential intrinsic value. A lot of smaller companies can be highly volatile and hence tend to have large up and down movements which may result in periods where the investor may see drawdowns. Further, small cap companies have higher opportunities of growth but these come with higher amount of risk as well and therefore, are suitable only for those investors who have higher risk appetite. It is likely that the portfolio may also experience period of volatile performance and liquidity challenges in view of its exposure towards mid and small cap companies. These companies will also be affected by 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.

Sector Allocation

Sector Name	% of Net Assets
Industrials	26.03
Financials	15.91
Consumer Discretionary	13.84
Materials	11.20
Health Care	6.82
Information Technology	5.64
Real Estate	3.66
Consumer Staples	3.25
Utilities	2.97

Market Capitalisation

Small Cap :	54.95%
Mid Cap:	22.87%
Large Cap:	11.50%
Avg. Weighted Market Capitalisation	Rs. 44,326 Cr Median
Market Capitalisation	Rs. 21,226 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.	

Why Mid and Small Cap stocks with flavor of Large Cap stocks

Potential alpha generators		
Mid Cap stock features	Small Cap stock features	Large Cap stock features
 Historically above average performance	Multi-baggers of tomorrow	Low volatility
 Earnings acceleration and superior growth trajectory	High earnings growth potential	Relatively stable earnings growth
 Under-researched, Under-owned	Under-researched and under-owned	Well-researched
 Leaders in smaller sectors	Opportunities to spot pricing anomalies	Well-owned
 Niche players in traditional sectors	Diversity and alpha potential, Large under owned universe of around ~700 stocks in small cap space	Reasonable valuations

Portfolio positioning

<b>Strong lineage</b> <ul style="list-style-type: none"><li>Aspire Portfolio is from the HSBC Asset Management that has:</li><li>Competent investment management team</li><li>Consistent Track record</li><li>Sound investment process &amp; philosophy</li></ul>
<b>Portfolio positioning</b> <ul style="list-style-type: none"><li>Focus on alpha generation from selection of quality Mid / Small Cap stocks with non-consensus approach and in-house research</li></ul>
<b>Opportunistic</b> <ul style="list-style-type: none"><li>Flexibility in investing into new themes, special situation plays.</li></ul>
<b>Investment discipline</b> <ul style="list-style-type: none"><li>Clear focus on "what not to buy"</li></ul>

Note - The above sector mentioned for illustration purpose only. The above data/information represents historic performance of the sector and for illustration purpose only. The above graphs/ analysis should not be construed as an investment advice or research report or recommendation to buy or sell any sector mentioned above. Past performance may or may not sustain and doesn't guarantee the future performance. For illustrative purposes only. The information above is provided by and represents the opinions of HSBC Asset Management and is subject to change without notice.

Source – Bloomberg, Data as on 30 September 2024.  
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# 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.

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