

HSBC India Next Portfolio

PMS Product Note

June 2021

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 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:

Though India navigated through challenging situation of second COVID wave, equity markets witnessed record all time high levels towards the end of the month, with rapid decline in daily new infections and encouraging 4QFY21 corporate results. The markets seem to be looking past temporary issues and are focused on an earnings bounce from companies. From here on, gradual unlocking of the state economies, robust external demand and vaccination ramp up, may provide necessary tailwinds.

India's GDP grew at 1.6% yoy in 4QFY21, indicating that the economy was returning to normal before the second COVID wave struck, led by strong pent up demand. On an annual basis, FY21 ended with a de-growth of 7.3% YoY. On account of the disruptions caused by the second wave of COVID-19 pandemic to businesses across various sectors of the economy, the government has further enhanced the scope of Emergency Credit Line Guarantee Scheme (ECLGS). These measures, would enhance the utility by providing additional support to MSMEs, safeguarding livelihoods and helping in seamless resumption of business activity. These changes will further facilitate flow of credit at reasonable terms.

The global commodity up cycle is in full swing of late with multiple factors at play. The impact of commodity inflation on corporates in a constrained demand environment will be keenly watched in near term. The third consecutive normal monsoon according to IMD forecast, augurs well for the economy and provides comfort to RBI in relation to inflation.

We retain a long term focus in our investment horizon and remain true to our core set of investment principles of buying high quality stocks that can sustainably create wealth over the long term and a general avoidance of trying to time or trade around short term market movements. We are excited about the portfolio companies selected from three dominant themes of Digital/Consumption/GLOCAL that are poised to capitalize on India's growth story in medium to long term.

Top 10 Holdings

Name	Weight	Theme	ROE (FY21E)	EPS CAGR (2Yrs)
STATE BANK OF INDIA	5.69	Consumption + Digital	8.4	48.9
INFOSYS LTD	5.65	Digital	27.3	16.5
RELIANCE INDUSTRIES LTD	5.61	Digital + Consumption	8.5	18.7
TITAN CO LTD	4.72	Consumption	13.7	14.3
HDFC BANK LIMITED	4.66	Consumption + Digital	16.6	20.6
AMBUJA CEMENTS LTD	4.64	GLOCAL	8.4	17.4
COROMANDEL INTERNATIONAL LTD	4.63	Digital	28.1	16.5
PERSISTENT SYSTEMS LTD	4.43	Digital	17.4	30.1
NESTLE INDIA LTD	4.40	GLOCAL + Consumption	105.8	11.7
BAJAJ FINANCE LTD	4.39	Digital + Consumption	12.8	24.4

Portfolio Fundamentals

Dividend yield FY20	0.7%
P/E FY21 estimates	49.7x
P/E FY22 estimates	33.3x
2 year EPS CAGR	15.8%
RoE FY21 estimates	18.6%

Performance Attributes

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

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Data as on 31 May 2021, Document Date - 8 June 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)

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	23.10
Information Technology	14.40
Materials	13.12
Consumer Discretionary	12.62
Industrials	7.01
Energy	5.61
Consumer Staples	4.40
Health Care	4.29
Real Estate	3.39
Cash & Equivalent	12.06

Market Capitalisation

Large Cap:	47.84%
Mid Cap:	24.42%
Small Cap:	15.68%
Avg. Weighted Market Capitalisation	Rs226,339Cr
Median Market Capitalisation	Rs64,891 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)	6.52 %	6.00 %	5.98 %
S&P BSE 200	6.80 %	8.24 %	4.18 %

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 May 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.