

HSBC India Next Portfolio

PMS Product Note

December 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:

Amidst many concerns on both global & domestic front, India's benchmark indices made life time high during the month. The Indian economy has been growing steadily, drawing strength from its macroeconomic fundamentals and buffers. Supported by time-bound and targeted monetary, regulatory, and fiscal policies, the economic recovery against a volatile global backdrop has been broad-based and resilient.

India GDP grew at 6.3% in 2QFY23. Crude prices have come off their highs together with rupee strength, will lead to lower imported inflation. India's manufacturing PMI at 55.7 reflects resilience in demand and ease off in cost pressure. Monthly auto numbers, buoyancy in direct & indirect tax collections, higher rabi sowing etc indicate improvement in economic activity. Even as global economy is under threat of slow down owing to ongoing geo-political conflict, aggressive monetary tightening by global central banks and high inflation, India's economy is growing at a steady pace on the back of strong fundamentals and as reflected by high frequency indicators. Globally inflation is moderating, allowing the global tightening cycle to pause which augur well from equity market perspective.

We have tweaked the portfolio by partial profit booking in Phoenix Mills and adding the weight to CRISIL during the month. HINP portfolio has underperformed the benchmark index in the short term. After making low during June month, headline indices have sharply moved up led by financials & PSUs. As you are aware, we have focused on three structural themes in our PMS strategy and have constructed the portfolio around these themes. Apart from concentrated & thematic portfolio, some companies especially from consumption category, have faced margin pressure due to higher input prices amid competitive landscape in their respective businesses. Since these companies are leaders in their categories with strong balance sheet & management capability, we are confident about their future prospects and hence holding on to them. As Charlie Munger says "The big money is not in buying or selling, but in the waiting." There could be hiccups in this investment journey in the short term but it will be rewarding in the long run.

Since inception of HINP strategy 20 months ago, we have witnessed huge volatility in the markets and yet portfolio remained quite resilient due to careful stock selection and patience, key to withstanding market turbulence.

We believe high-quality companies that can take advantage of the secular trends and expand their market share will continue to outperform. Market valuations remain high, which is not uncommon for India. In such a dynamic market with many competitors rising in each niche, our endeavor is careful stock selection – a thorough company-by-company assessment to uncover hidden value and remaining invested over long term to deliver risk adjusted return from the portfolio.

Top 10 Holdings

Name	Weight	Theme	ROE (FY22e)	EPS CAGR (2Yrs)
STATE BANK OF INDIA	6.96	Consumption + Digital	11.9	38.4
INFOSYS LTD	6.35	Digital	29.1	14.8
RELIANCE INDUSTRIES LTD	6.07	Digital + Consumption	8.2	20.5
TITAN CO LTD	5.68	Consumption	25.9	27.8
J.B. CHEMICALS & PHARMA LTD	5.30	Consumption	19.5	23.1
BAJAJ FINANCE LTD	5.22	Digital + Consumption	17.4	26.3
TIMKEN INDIA LTD	5.12	GLOCAL	21.8	21.6
MARUTI SUZUKI INDIA LTD	4.97	GLOCAL + Consumption	7.1	17.9
HDFC BANK LIMITED	4.97	Consumption + Digital	16.7	17.1
PHOENIX MILLS LTD	4.65	Consumption	4.1	22.4

Performance*	1 Month	3 Months	6 Months	1 Year	Since Inception
Portfolio (HINP)	1.40%	1.02%	11.74%	7.18%	14.75%
S&P BSE 200	3.39%	4.06%	13.12%	9.91%	13.70%

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.

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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%

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	25.49
Consumer Discretionary	13.79
Industrials	12.15
Information Technology	10.92
Materials	8.21
Energy	6.07
Health Care	5.30
Real Estate	4.65
Communication Services	4.29
Consumer Staples	4.27

Market Capitalisation

Large Cap:	48.20%
Mid Cap:	33.92%
Small Cap:	13.00%
Avg. Weighted Market Capitalisation Rs.316,812 Cr	
Median Market Capitalisation Rs.59,479 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.	

Portfolio Fundamentals & Attributes

Dividend yield FY22	0.8%	2 year EPS CAGR	29.6%
P/E FY22	50.6x	RoE FY22	32.0%
P/E FY23 estimates	37.0x	Beta:	0.9

2 years EPS CAGR: FY22 – 24, Data as on 30 November 2022

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

Data as on 30 November 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.