

HSBC India Next Portfolio

PMS Product Note

November 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 Indian stock markets after strong rally since March lows, corrected in October due to uncertainty around the ongoing Israel-Hamas war, rising crude prices, hardening US bond yields and FII outflows.

The earnings season of 2QFY24 is in full swing and we are closely analyzing results of our portfolio companies. Sectors such as consumer, non-bank lenders, chemicals, IT and industrials have seen downgrades whereas autos, large banks, power, property results trended better so far. Overall, margin expansion is led by RM cost tailwinds and improved cash flow from operations on a y-o-y basis.

Another important event in near term is upcoming five assembly elections in November month. These elections are considered as the semi-finals to the upcoming Lok Sabha elections as it is within a short gap (of ~6 months) before the Lok Sabha elections. However, our analysis of past elections suggests that assembly elections are not a good barometer of the Lok Sabha election.

India's biggest strength is its domestic demand and consumption, which is the reason it performs better than other economies. Unlike the export oriented economies of East and Southeast Asia or investment driven China, it is domestic consumption that has powered India's growth. Post Covid era, there is major shift in Indian consumer behavior towards high end, premium products and services. Be it in terms premium cars, luxurious homes, hospitality, high end jewellery & watches, clothing & accessories etc, discretionary consumption oriented companies have seen no slowdown inspite of inflationary environment. The recent announcement of Titan to open invite-only jewellery store in Delhi with minimum ticket size of Rs. 10 lakh is an example of India's rising affluent class. We recognized this visible, structural trend quite early in our HSBC India Next portfolio and are well positioned to benefit from it in the long run.

During the month, we added DLF incrementally based on its quarterly result and strong demand for its luxury residences and office portfolio in its home market.

Top 10 Holdings

Name	Weight%	Theme	ROE (FY23) %	EPS CAGR (2Yrs)
CRISIL LTD	5.73	GLOCAL	33.5	5.3
STATE BANK OF INDIA	5.68	Consumption + Digital	16.7	2.3
J.B. CHEMICALS & PHARMA LTD	5.12	Consumption	17.8	11.0
BAJAJ FINANCE LTD	5.07	Digital + Consumption	23.5	10.0
PHOENIX MILLS LTD	5.00	Consumption	17.8	-0.9
MARUTI SUZUKI INDIA LTD	5.00	GLOCAL + Consumption	14.0	13.6
TITAN CO LTD	5.00	Consumption	30.7	7.9
TATA COMMUNICATIONS LTD	4.78	Digital	146.9	2.8
PERSISTENT SYSTEMS LTD	4.77	Digital	25.1	8.8
INFOSYS LTD	4.70	Digital	32.0	3.5

Performance#	1 Month	3 Months	6 Months	1 Year	2 Years	Since Inception
Portfolio (HINP)	-1.08%	0.61%	15.28%	15.18%	8.79%	14.80%
BSE 500 TRI ^	-2.86%	-1.42%	10.89%	9.63%	6.74%	12.57%
BSE 200 ^^	-2.99%	-2.35%	8.38%	6.42%	4.59%	10.02%

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 31 October 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	25.84
Consumer Discretionary	17.97
Information Technology	12.37
Industrials	11.97
Real Estate	9.23
Health Care	5.12
Communication Services	4.78
Energy	4.41
Consumer Staples	3.78

Market Capitalisation

Large Cap:	50.92%
Mid Cap:	32.16%
Small Cap:	12.38%
Avg. Weighted Market Capitalisation	Rs.2,63,142Cr
Median Market Capitalisation	Rs.90,873Cr
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	24.7%
P/E FY24 estimates	37.2x	RoE FY23	27.2%
P/E FY25 estimates	30.4x	Beta:	0.90

2 years EPS CAGR: FY23 – 25, Data as on 31 October 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 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.