HSBC
Asset Management

HSBC India Next Portfolio

PMS Product Note

March 2022

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 (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:

External risks continue to rise in CY22, with geopolitical events adding to the milieu. Even as the US Fed signaled its intention to raise interest rates and fight inflation, the Russia-Ukraine conflict has further raised market volatility across asset classes, hastened the risk-off sentiment, and drove the correction in equity markets. FIIs continue to remain net sellers in India as the global risk-off sentiment and the geopolitical situation have added to concerns of inflation, higher bond yields, and global rate hikes. This has resulted in $14.1bn of outflows from the Indian market since Oct'21. This has been offset by DII buying of $16bn over the same period. The 3QFY22 results season ended broadly in-line with expectations though there were meaningful sectoral divergence. Higher commodity prices turned out to be a headwind for input prices for user segments, while it was a tailwind for commodity producers.

On economic recovery front, high-frequency indicators announced for Feb'22 and Jan'22 point towards economic recovery as new covid cases dipped sharply to a 7-day average of around 10,000. GST collections remained robust at Rs1.33 trillion, PMI-manufacturing at 54.9 and robust exports growth 22% during February month. Q3FY22 GDP grew 5.4% yoy with moderate improvement in private consumption. RBI maintained the repo rate at 4% signaling its accommodative stance. However with soaring crude prices, there is going to be impact on inflation risk.
The near term outlook is quite uncertain with the ongoing Russia Ukraine conflict. The sanctions against Russia and the geo-political uncertainty has important ramifications for global financial stability, energy prices and growth.
While we expect the markets to be extremely volatile, we are taking a view that this too shall pass and stick to a portfolio strategy based on our robust investment framework. Short term impact of geopolitical events, will not alter the fundamental drivers of the companies, even as stock prices undergo some short term correction, only to recover later. We remain focused on the fundamentals of companies and especially the earnings growth trajectory.
Despite ongoing market uncertainty, we remain confident about our portfolio construct based on structural mega trends in medium to long term. We remain agile in reshaping the portfolio, if required in this dynamic investment environment. Events like covid-19 or Russia- Ukraine crisis tells us that we must not claim to predict the future, instead all we can do is prepare – by constructing the portfolio of high quality businesses, capable to suffer through such events and bounce back strongly in the long run. HINP Portfolio is built with such gems carefully selected from three dominant themes.

Top 10 Holdings

Name	Weight	Theme	ROE (FY21)	EPS CAGR (2Yrs)
INFOSYS LTD	6.42	Digital	27.3	17.3
STATE BANK OF INDIA	6.01	Consumption + Digital	8.4	54.1
TITAN CO LTD	5.85	Consumption	13.7	26.2
RELIANCE INDUSTRIES LTD	5.64	Digital + Consumption	8.5	21.0
TIMKEN INDIA LTD	5.11	GLOCAL	9.8	6.1
BAJAJ FINANCE LTD	5.05	Digital + Consumption	12.8	14.3
MARUTI SUZUKI INDIA LTD	4.97	GLOCAL + Consumption	8.5	(18.7)
HDFC BANK LIMITED	4.71	Consumption + Digital	16.6	18.7
PERSISTENT SYSTEMS LTD	4.65	Digital	17.4	43.0
J.B. CHEMICALS & PHARMA LTD	4.57	Consumption	27.6	29.9

Portfolio Fundamentals

Dividend yield FY21	0.5%
P/E FY21	53.3x
P/E FY22 estimates	42.4x
P/E FY23 estimates	30.5x
2 year EPS CAGR	24.4%
RoE FY21	17.5%
RoE FY22	25.2%

Performance Attributes

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

2 years EPS CAGR: FY21 – 23e, Data as on 28 February 2022 Document Date - 8 March 2022

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	
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	19.27
Information Technology	15.24
Consumer Discretionary	14.51
Materials	11.53
Industrials	8.82
Energy	5.64
Health Care	4.57
Consumer Staples	4.03
Real Estate	3.83
Communication Services	3.22

Market Capitalisation

Large Cap:	50.28%
Mid Cap:	23.16%
Small Cap:	17.22%
Avg. Weighted Market Capitalisation	Rs 269,913 Cr
Median Market Capitalisation	Rs 62,039 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	6 Months	1 Year	Since Inception
Portfolio (HINP)	-4.00 %	-1.86 %	-0.72 %	17.03%	16.48 %
S&P BSE 200	-3.53 %	-1.87 %	-1.88 %	16.62%	11.88 %

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 28 February 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.

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.