Asset Management

HSBC Global Investment Funds- Indian Equity

June 2023

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HSBC Opening up a world of opportunity

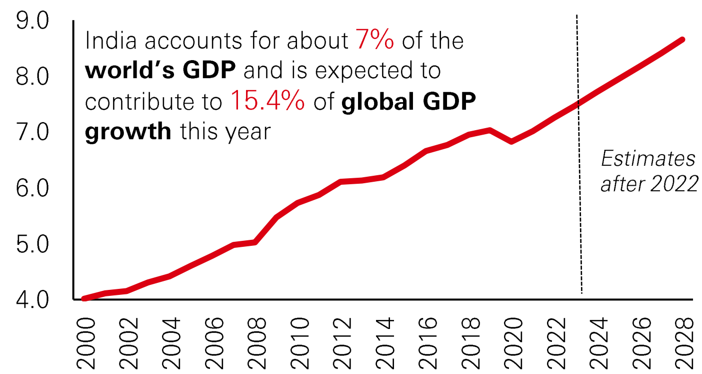
Why India now

Strong economic growth

With many parts of the world seeing downside risks to growth, India's economic resilience is a bright spot. India is expected to be the fastest growing major economy in the world this year. India is less vulnerable to slowing global demand than many of its EM peers, as exports make up less than a quarter of its GDP. Strength in India's net services exports, a narrowing trade deficit, and attractive fundamentals should also continue to support the INR.

India is an increasingly important contributor to world GDP

India GDP share of the world (%)



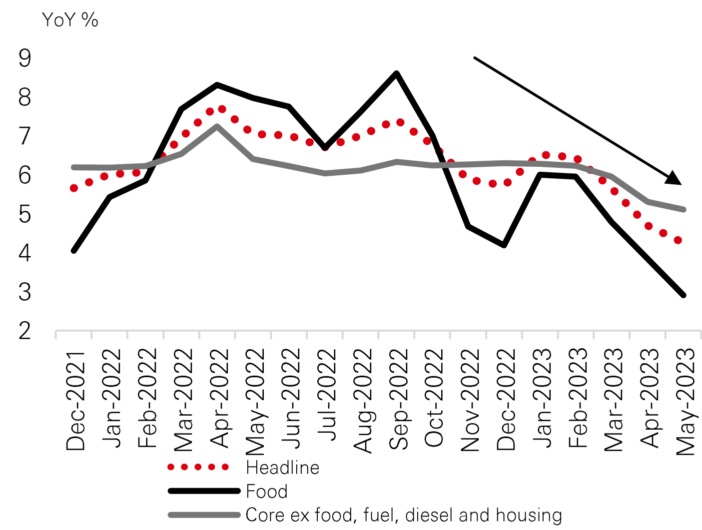
Source: IMF, HSBC Asset Management, data as of April 2023

Inflation is easing

Unlike the stubbornly high inflation in developed markets, India's headline inflation has eased to 4.3% year-on-year in May, the fourth monthly decline led by base effects and moderation in food prices.

The relatively mild inflationary environment offers policymakers leeway to cut rates to support the economy. According to HSBC Global Research in June, the economists forecast two repo rate cuts of 25bps each in 1Q and 2Q of 2024, taking the policy repo rate to 6% by mid-2024.

India sees a broad-based decline in inflation

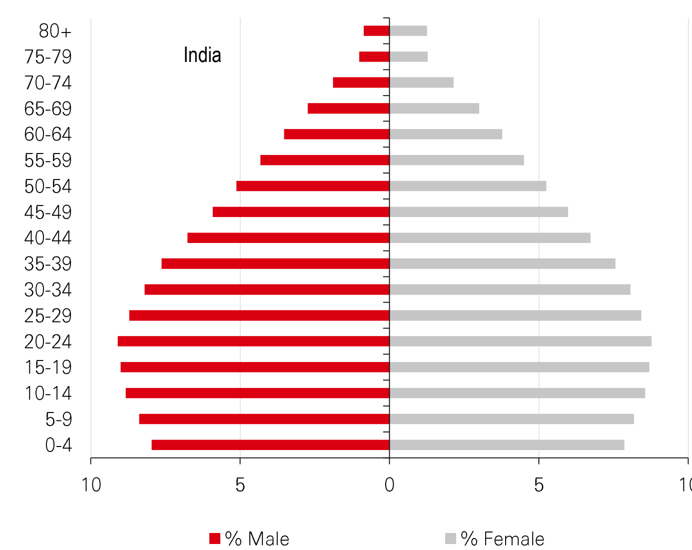


Source: RBI, HSBC Asset Management, data as of May 2023

Favorable demographics

India's population, now officially the largest in the world, is often considered a mixed blessing however its population pyramid firmly favours future productivity growth. According to data from the United Nations, Indians are relatively young with a median age of 28 years, 10 years younger than the population of China (38 years) and the US (39 years old). At the same time, UN projects that India's working-age population will continue to grow until 2050 whereas China's working-age population has been in decline since 2015.

India's working-age population will continue to grow till 2050



Source: United Nations, HSBC Global Research, data as of May 2023.

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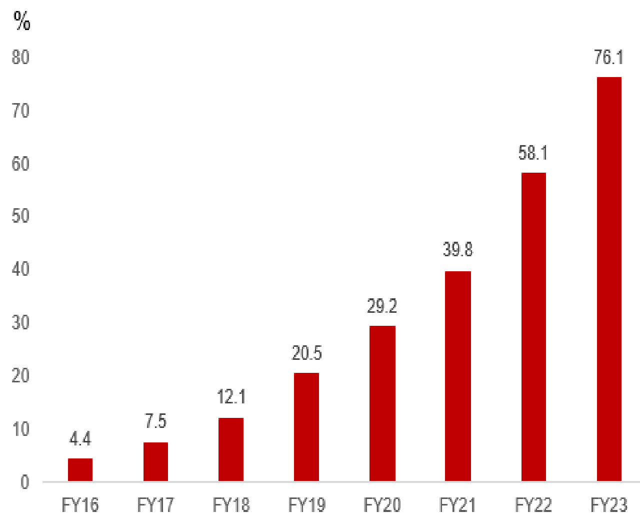
Opportunities in Indian equities

Digitalisation

First launched by the government in July 2015, the digitalisation programme, which includes the setting up of digital public infrastructure and adoption of electronic payments, aims to make India a digitally empowered country, while addressing challenges related to financial inclusion, boosting governance and reducing social disparities.

The success of these initiatives can be evidenced by the the rise in digital transactions. The value of digital transactions accounted for over 76% of GDP in FY23 (March 2022-April 2023), vs 4.4% at the start of the digitalisation programme, according to data released by the RBI in March 2023.

Digital transactions as % of GDP



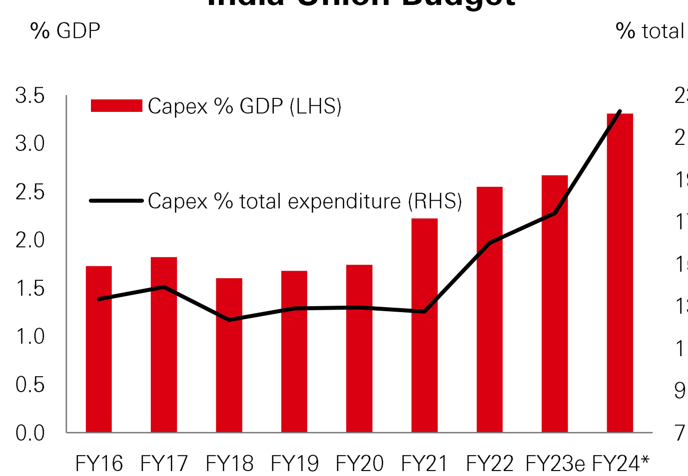
Source: RBI, Morgan Stanley Research, data as of May 2023

Infrastructure push

India continues to raise spending on infrastructure (including a 33% increase in capital expenditure on infrastructure in the current fiscal year) to spur growth, create jobs and raise income levels. The government has launched a National Infrastructure Pipeline that aims to attract financing and improve project preparation with projects worth US$1.3tn currently at different stages of implementation.

We believe this focus on infrastructure will lead to an improvement in capex to GDP, which would see India witness higher productivity led growth in the coming years. Sectors such as capital goods, engineering and construction companies, and power utilities are likely to be major beneficiaries.

India Union Budget

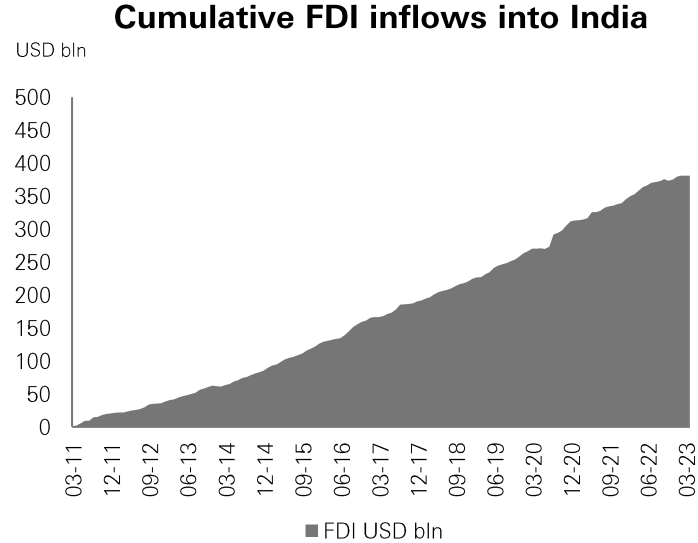


Source:: CEIC, HSBC Asset Management data as of May 2023

Manufacturing hub in the making

Policies such as 'Make in India' and the Production-linked incentive (PLI) schemes, which incentivise domestic production in strategic industries such as semiconductor and display, mobile devices, pharma, food processing and autos, etc. support the goal to transform India into a global design and manufacturing hub. These efforts have gained momentum over the last few years as a result of the COVID 19 pandemic and evolving global geopolitical landscape, with international corporates actively seeking to establish a presence in India. The cumulative foreign direct investment into the country has reached US$381 billion as of April 2023.

Cumulative FDI inflows into India



Source:: CEIC, HSBC Asset Management data as of April 2023

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Investing in Indian equities with HSBC Asset Management

How we differentiate ourselves

Local onshore expertise within a diverse, international network

- On-the-ground expertise in India complemented by HSBC's global and regional insights
- HSBC's acquisition of L&T's asset management business adds further depth and experience to our India investment capabilities (market cap, investment styles)

Clear philosophy with a long term focus

- Resilient earnings growth would be the key driver to fund performance in Indian equities market
- Our bottom up approach focuses on management quality

Large cap focused and high conviction investment approach

- Concentrated portfolio of 30-50 stocks, propelled by bottom up approach designed to deliver alpha in growth driven markets
- Strategy adheres to a robust global risk management framework for portfolio construction and ESG integration

Source: HSBC Asset Management, data as of 31 May 2023

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Fund details

Fund managers	Sanjiv Duggal, Nilang Mehta
Fund domicile	Luxembourg
Fund administrator	HSBC Continental Europe, Luxembourg
Reference benchmark	S&P / IFCI India Gross
ISIN	LU0066902890
Investment objective	The Fund aims to provide long term capital growth and income by investing in a portfolio of Indian shares.
Fund size	1,003 million
Base currency	USD
Management fee	Class AD: 1.50% p.a. Class IC: 0.55% p.a.
Dealing frequency	Daily
Inception date	29-Feb-1996

Source: HSBC Asset Management, data as of 31 May 2023

Fund characteristics

	Portfolio	**S&P / IFCI India Gross**
Number of Holdings	47	529
Average Position Size (%)	2.2%	0.2%
Weighted Average Market Cap (US$bn)	52.8	47.6
Ex-Ante Beta	0.97	NA
Active Share (%)	61%	NA
Forward EV/EBTIDA	14.8x	15.1x
Forward P/E	19.7x	18.8x
Net Debt / Equity	29%	49%

Source: HSBC Asset Management, data as of 31 May 2023

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Key risks

The value of investments and any income from them can go down as well as up and investors may not get back the amount originally invested. Further information on the potential risks can be found in the Key Investor Information Document (KID) and/or the Prospectus or Offering Memorandum.

- **Exchange rate risk:** Investing in assets denominated in a currency other than that of the investor's own currency perspective exposes the value of the investment to exchange rate fluctuations
- **Concentration risk:** Funds with a narrow or concentrated investment strategy may experience higher risk and return fluctuations and lower liquidity than funds with a broader portfolio
- **Emerging market risk:** Emerging economies typically exhibit higher levels of investment risk. Markets are not always well regulated or efficient and investments can be affected by reduced liquidity
- **Derivative risk:** The value of derivative contracts is dependent upon the performance of an underlying asset. A small movement in the value of the underlying can cause a large movement in the value of the derivative. Unlike exchange traded derivatives, over-the-counter (OTC) derivatives have credit risk associated with the counterparty or institution facilitating the trade
- **Operational risk:** The main risks are related to systems and process failures. Investment processes are overseen by independent risk functions which are subject to independent audit and supervised by regulators
- **Counterparty risk**: The possibility that the counterparty to a transaction may be unwilling or unable to meet its obligations
- **Liquidity risk:** Liquidity of securities may also fluctuate, resulting in situations where an investor may not be able to buy or sell the security in a timely manner at their preferred price range if the turnover volume were to drop significantly
- **Taxation risk:** Investors should note that the proceeds from the sale of securities in some markets or the receipt of any dividends or other income may be or may become subject to tax, levies, duties or other fees or charges imposed by the authorities in that market
- **Custody risk:** Investors should be aware that they are exposed to the risk of the custodian not being able to fully meet its obligation to restitute in a short time frame all of the assets of the Fund in the case of bankruptcy of the custodian
- **Sustainable investment policy risk:** Sustainable Criteria are subjective and are subject to the Investment Adviser's discretion. The use of Sustainable Criteria may affect the Fund's investment performance

Important information

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