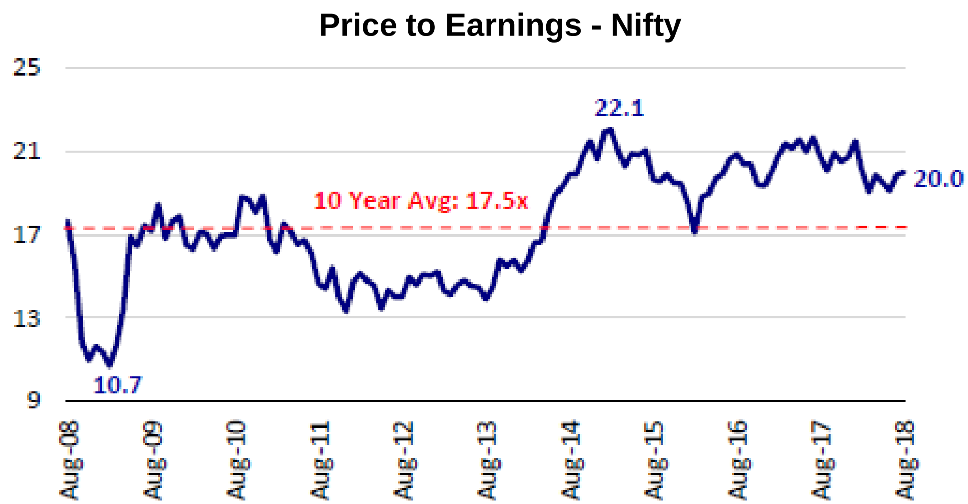
Life needs balance. So do your investments

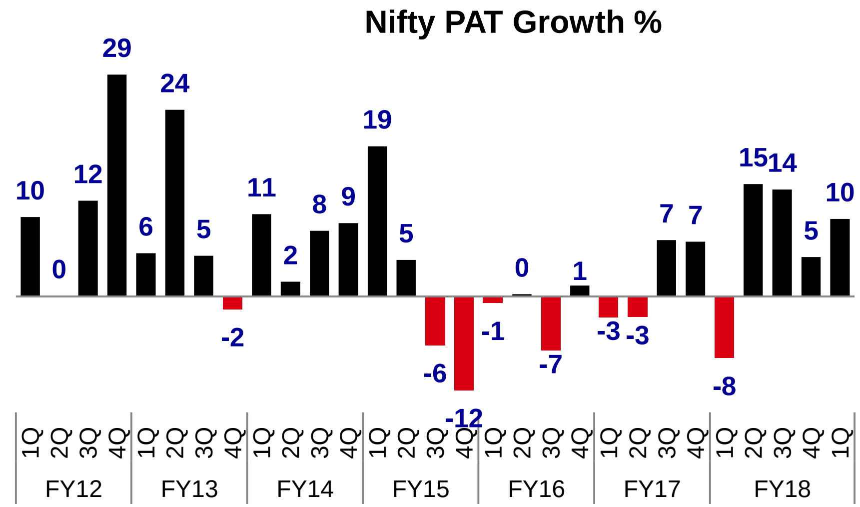
HSBC Equity Hybrid Fund | NFO open from: 28 Sep - 12 Oct 2018

HSBC
Global Asset
Management

Where are we today?

Above average equity valuations + Attractive bond yields + Political uncertainty



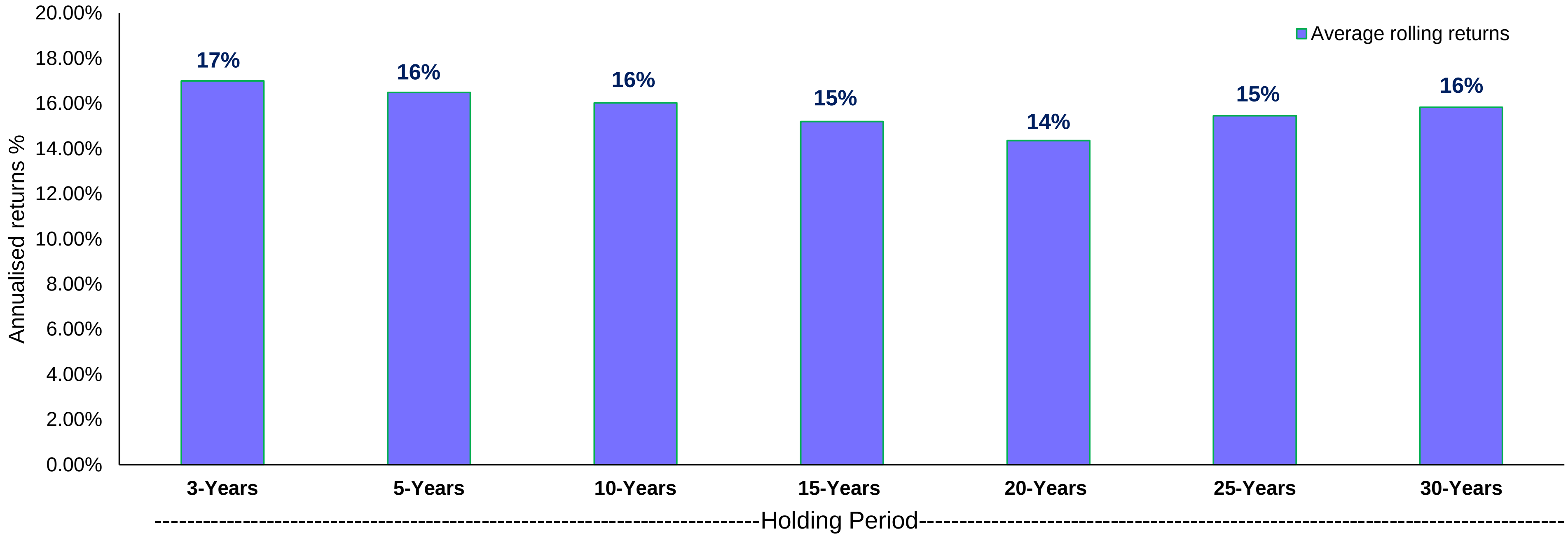


Current equity valuations and bond yields call for a balanced approach

Source: Bloomberg, MOSL, August 2018

Equity offers long-term wealth creation opportunity

- Equity has proven to be one of the best asset classes for long-term wealth creation.
  - S&P BSE Sensex has returned 14% annualised returns, on an average, for a 20-year holding period on a daily rolling basis

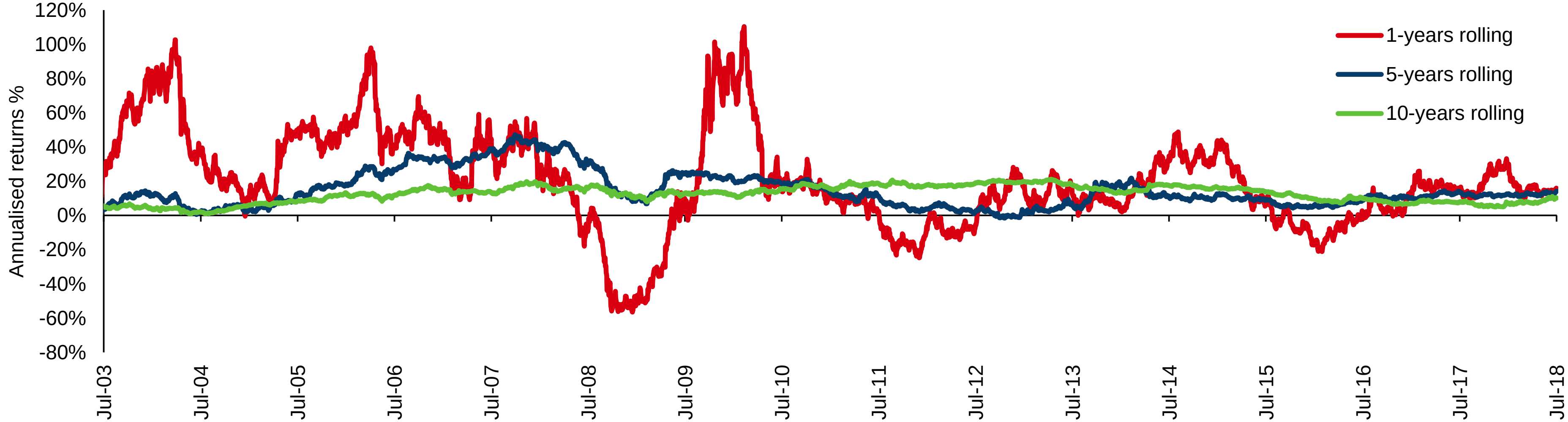


Equity delivered an average of 14% returns over a long-term period

Source: BSE
Annualised returns of S&P BSE Sensex on a daily rolling basis since July 1979, Data as on July 2018
Mutual fund investments are subject to market risks, read all scheme-related documents carefully. Past performance may or may not sustain and doesn't guarantee the future performance

Volatility exists in the short run

- Equity provides a wealth-creation opportunity over the long term, but can erode wealth in the short term owing to volatility. Therefore, it is prudent to go long.



◆ Long-term investing increases the likelihood of better performance because of the power of compounding and shields the portfolio against short-term market fluctuations.

Longer investment horizon helps reduce volatility

Source: BSE
Annualised returns of S&P BSE Sensex for the above holding periods are on a daily rolling basis between June 2003 to July 2018
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Short term volatility can be reduced too

Extreme volatility of equity can reflect temporary erosion of investment

+

Fixed Income asset class provides stability even in the short term

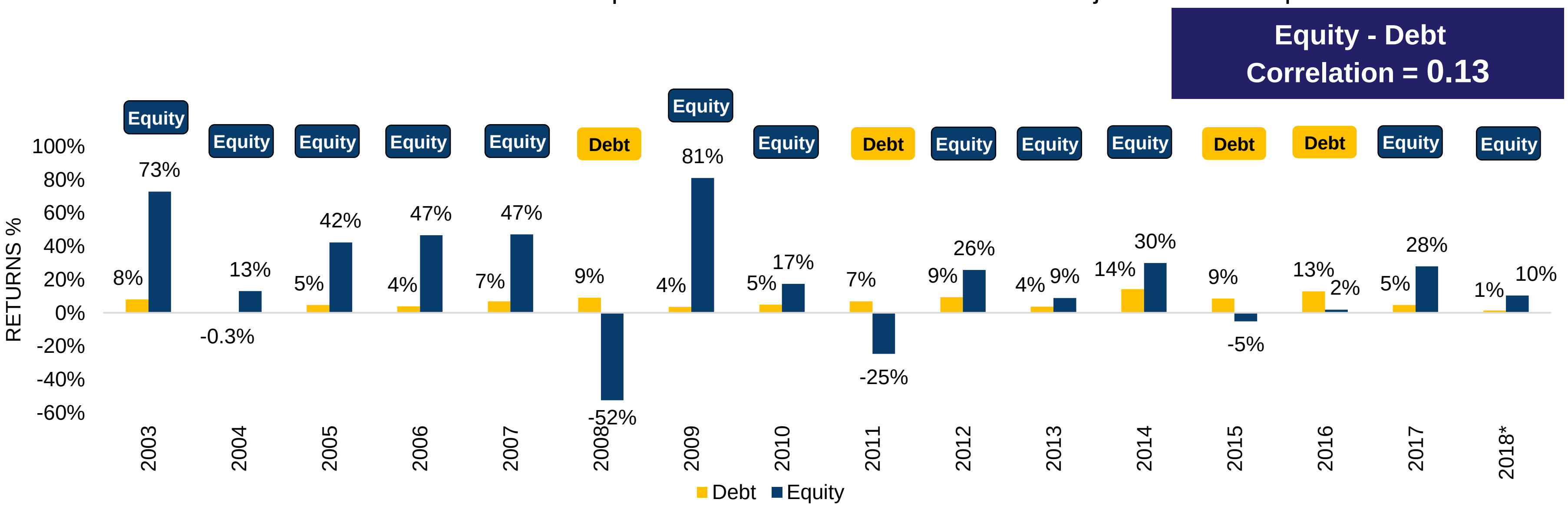
=

Exposure to both asset classes reduces the short term volatility and provides the right balance to the portfolio

Fixed Income complements equity and provides strength to the portfolio

Different seasons have different winners

- Every season the winner changes hands in the financial markets.
  - Asset classes (equity and debt) perform differently under different market situations.
  - Dependency on a single asset class could be risky and instead, diversification helps minimise potential losses.
  - Allocation to different asset classes is dependent on an investor's investment objective and risk profile.



- As evident in the chart above, equity (S&P BSE Sensex) nosedived 52% while debt (Crisil Composite Bond Fund Index) rose 9% in 2008, while in 2017, the S&P BSE Sensex surged 28% while the composite bond fund index rose just 5%.

Diversification helps minimise losses and get the best of both asset classes

Debt and equity are represented by the Crisil Composite Bond Fund Index and S&P BSE Sensex respectively,
Source: CRISIL Research, BSE, * data till 31 July 2018, Equity – Debt Correlation is calculated using 10 years daily returns data for Sensex TRI and Crisil Composite Bond Fund Index.
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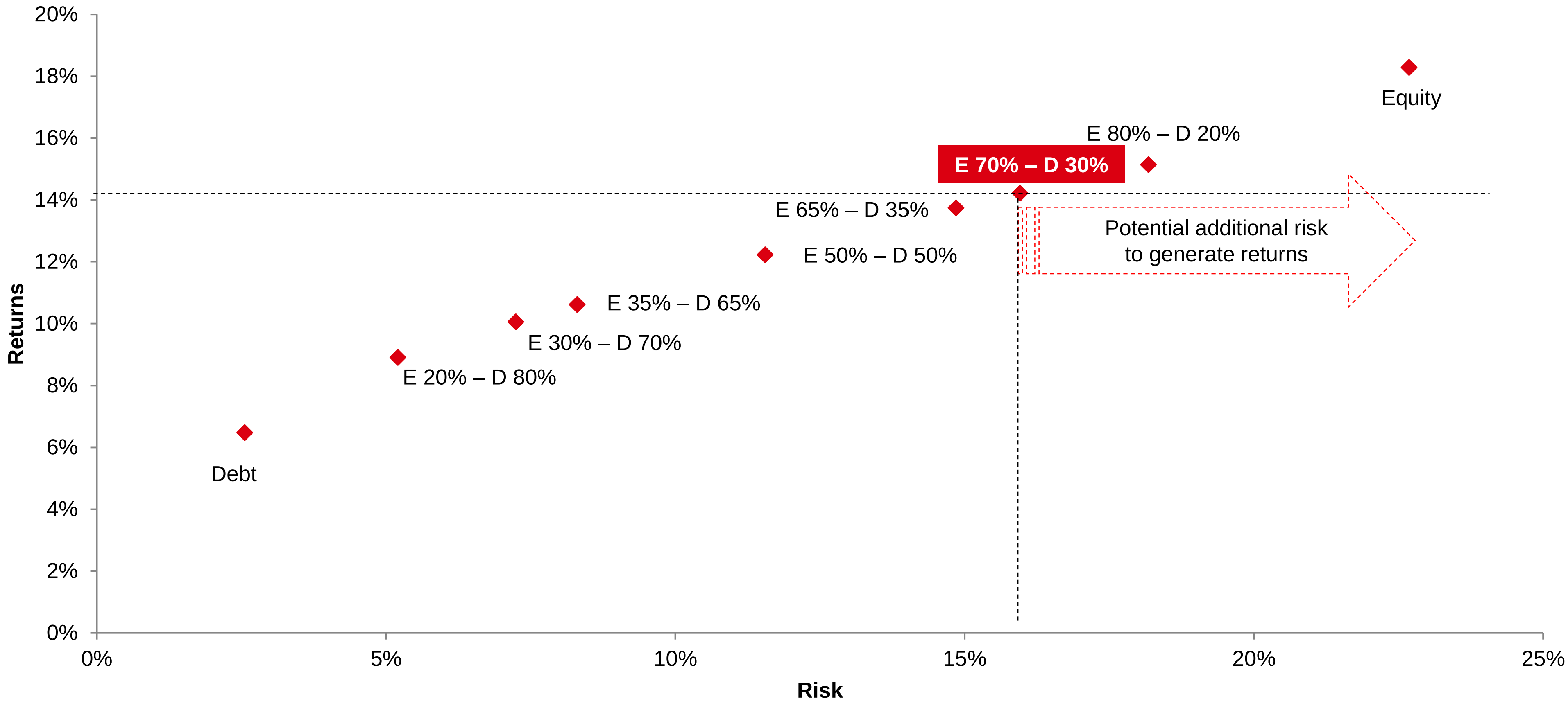
Optimal asset allocation for wealth generation



Right asset allocation is the key to an ideal portfolio

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Above list of asset allocation patterns is not exhaustive and only for illustration purpose
E –(Equity) S&P BSE 200 TRI and D (Debt) CRISIL Composite bond fund index, Equity – S&P BSE Sensex, Debt – Crisil Composite Bond Fund Index,
Risk – return chart for 15 years with daily rolling returns data till the period ended 31 July 2018 , Risk – Standard deviation

Optimal asset allocation best suited for long-term investors

- With appropriate asset allocation between equity and debt, benefits of diversification can be seen, particularly in the market downtrend.
- The analysis below shows that during bear phases, Portfolio B (70% equity and 30% debt) has performed better as compared with Portfolio A (100% equity).

Period	Portfolio A returns (equity 100%)	Portfolio B returns (equity 70% and debt 30%)
Sub-prime crisis (Jan 2008-Mar 2009)	-44%	-35%
Sharp bounce back post sub-prime crisis (Apr 2009-Dec 2010)	54%	38%
European crisis (Jan 2011-June 2013)	-1%	1%
Post European crisis (Jul 2013-Feb 2015)	29%	25%
Chinese slowdown (Mar 2015-Feb 2016)	-21%	-12%
Global liquidity and domestic reforms (Mar 2016-Dec 2017)	24%	22%

Right allocation across asset classes helps achieve better risk-adjusted returns

Portfolio Allocation A represented by S&P BSE Sensex TRI Index
Portoflio Allocation B represented by S&P BSE 200 TRI Index (70% weightage) and CRISIL Composite Bond Fund Index (30% weightage)
Annualised returns on point to point basis is considered
Source: CRISIL Research, For illustration purpose only
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Presenting,

HSBC Equity Hybrid Fund (HEHF)

(Aggressive Hybrid fund – An open ended hybrid scheme investing predominantly in equity and equity related instruments)

NFO Period

28 September - 12 October 2018

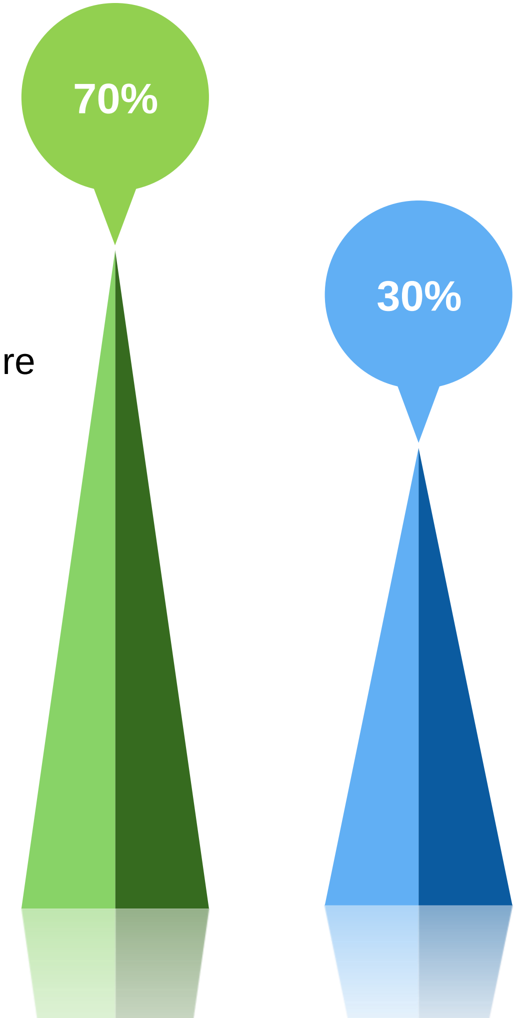
HSBC
Global Asset
Management

A solution for long term wealth creation

HSBC Equity Hybrid Fund

- An open ended aggressive hybrid scheme
- An asset allocation product with a mix of equity & debt
- Benefit from growth potential of equities
- Benefit from lower or reduced risk/volatility due to debt exposure

Investment in equity and equity-related instruments - between 65% and 80% of total assets *



Investment in debt instruments - between 20% and 35% of total assets *

Get upside potential of equities with relatively lower risk

Asset allocation of aggressive hybrid funds as per SEBI's new category reclassification.
For representation purpose only, * The provision for equity investments is between 65% to 80% and debt between 20% to 35%. The investment list above is not exhaustive and for illustration purpose only
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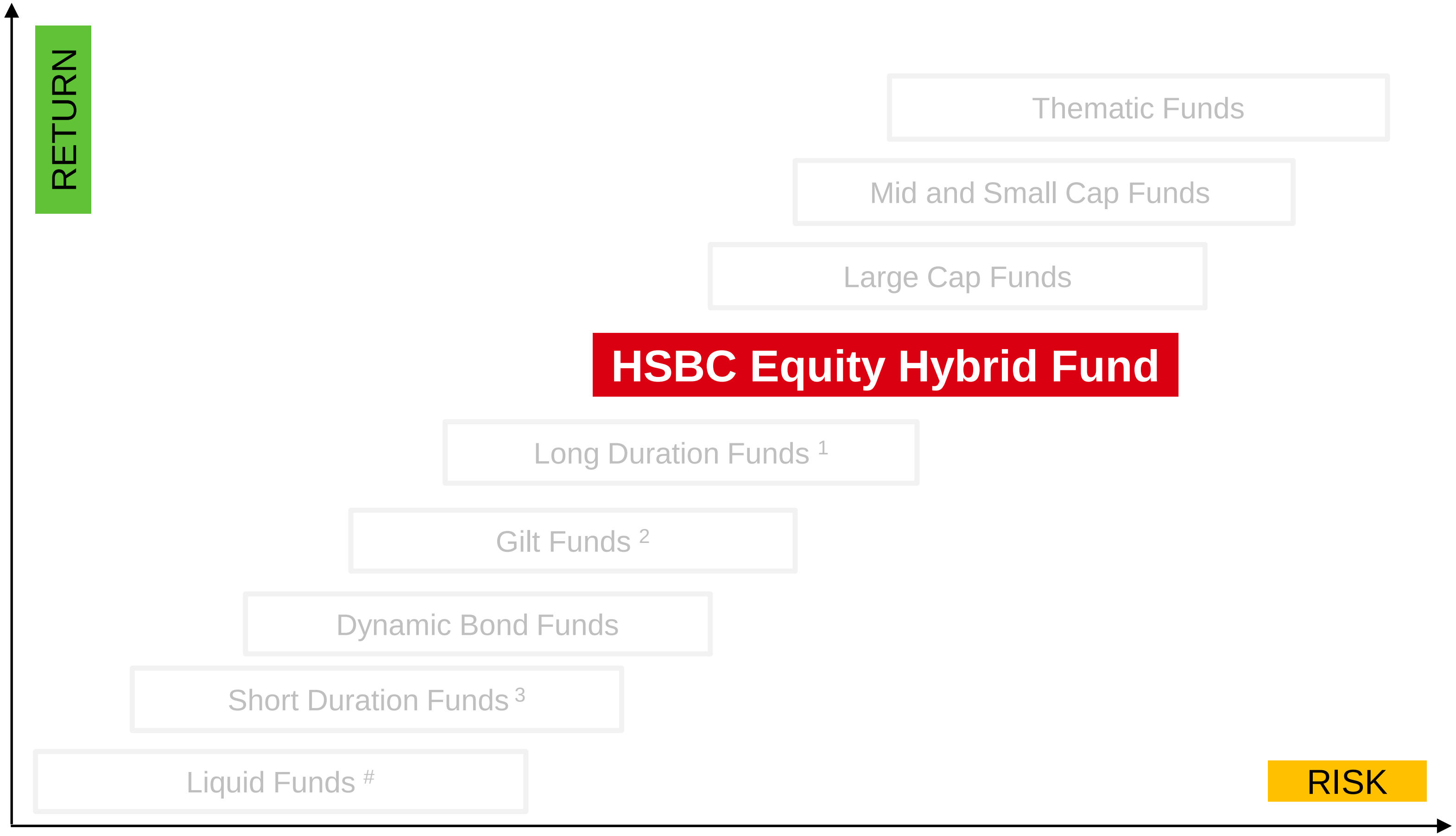
Fund placement in potential risk-reward matrix

Striking the right balance in between



HSBC Equity Hybrid fund is placed at a mid level of risk-return ratio

Source – HSBC MF, Note - Above list of categories in the chart is an indicative list and is not exhaustive

[#]Typical minimum investment horizon for investors, *There were 2 instances on July 16, 2013 and July 24, 2013 when the liquid funds gave negative one-day return due to tightening of liquidity by RBI

[1] An open ended debt scheme investing in instruments with Macaulay duration between 4 to 7 years

[2] An open ended debt scheme investing in government securities across maturity

[3] An open ended short term debt scheme investing in instruments with Macaulay duration between 1 year and 3 years

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HEHF's investment approach

Asset allocation strategy with right balance between equity & debt

- **Optimal asset allocation** – exposure to two different asset classes to strike the right balance between Growth & Stability

- **Flexi-Equity strategy** - sector agnostic style of investments with a flexi-cap strategy to build a diversified portfolio using PBROE valuation framework

- **Optimal-Duration strategy** - to follow an optimal duration debt strategy and invest in high quality fixed income instruments which offer reasonable yields

Flexible in approach, higher on growth, lower on risks

Data as of 31 July 2018

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Why flexi-cap equity strategy?

Capitalising on the opportunities across the market spectrum

Performance

- Flexi cap strategy can invest across market spectrum depending on prevailing opportunities which can provide performance consistency

Volatility

- Ability to maintain portfolio volatility at reasonable level due to a balance between large, mid and small cap stocks

Under researched

- Mid & small caps may be subject to mis-appraisals and mis-pricing as they are under researched and thus can create an alpha generation opportunity for the fund manager

Earnings

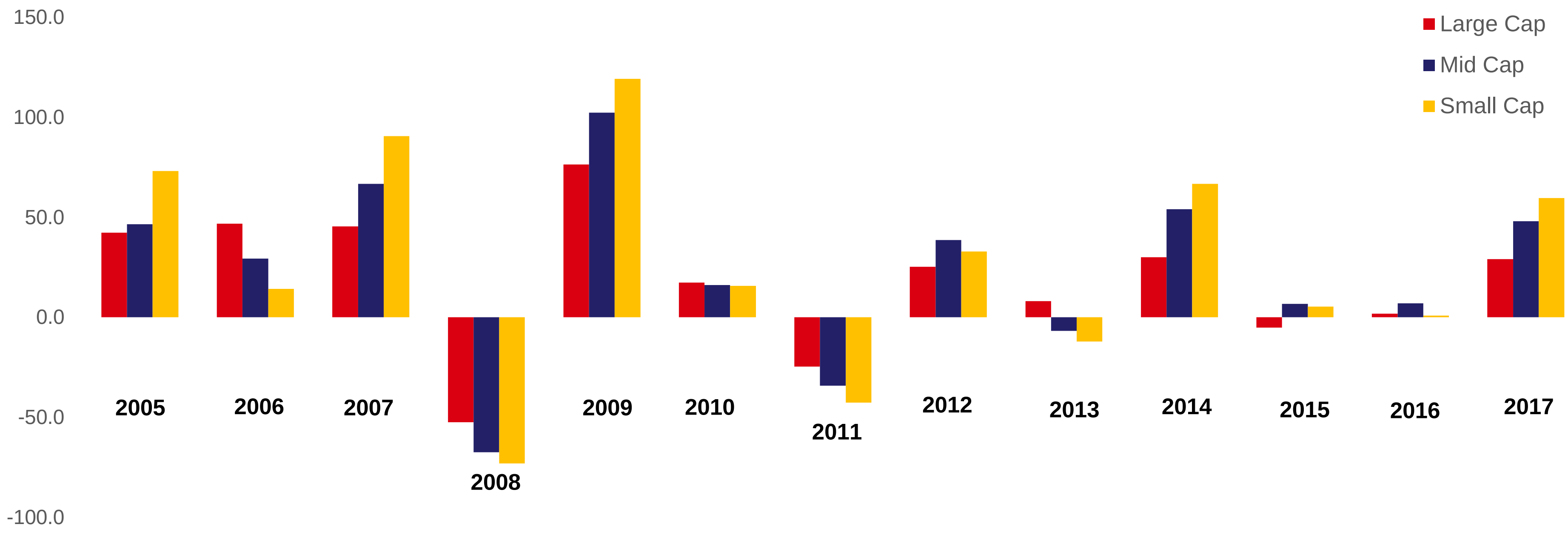
- It offers a combination of stable as well as accelerated earnings with a potential to support stock valuations in up as well as down trend

Growth

- While large cap companies are well positioned to achieve economies of scale, mid & small cap companies offer higher growth push

Bringing performance consistency

Flexi-cap strategy can outperform in different time periods



- **Large cap** stocks were the leaders in **2006, 2008, 2010, 2011 & 2013**
- **Midcap** stocks shone in **2012, 2015 & 2016**
- **Small cap** stocks were the best performers in the year **2005, 2007, 2009, 2014 & 2017**

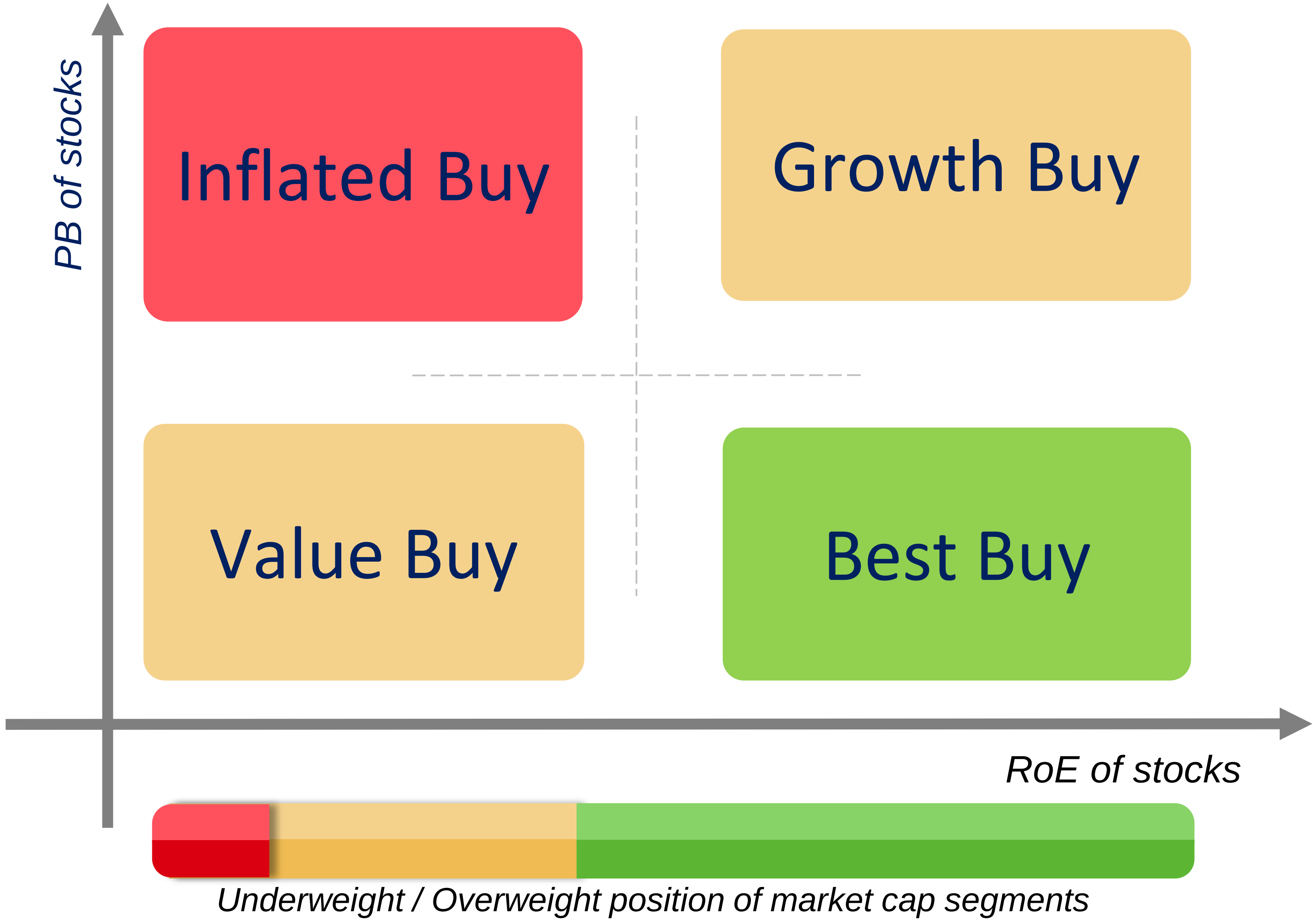
Different market-caps perform in different investment scenarios

Mutual fund investments are subject to market risks, read all scheme-related documents carefully. Past performance may or may not sustain and doesn't guarantee the future performance

Source - MFI ICRA, HSBC Global Asset Management , data as of 31 Dec 17

How do we construct a portfolio?

Placement of stocks through proprietary PBRoE process makes it more efficient



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For illustrative purposes only

Potential opportunities in equity

Flexi cap strategy

Large cap

- There is a concentrated performance on a YTD basis in Large Cap indices and there could be a case for wider participation going forward.

Mid & Small cap

- This segment continues to be more bottom up and a sharp correction in mid & small cap names this year is throwing up some investment opportunities that are now available at more reasonable valuations.

Investment style

- Flexi strategy offers potential quality mix of large, mid and small cap stocks in the portfolio without exposure to excessive risk. The fund aims to invest across value, growth and market capitalisations.

Focus themes in equity

Opportunities across sectors

Sector		Category	Rationale
Financials	O/w	• Private banks & select NBFCs	• Shift in market share away from PSBs
Materials	O/w	• Metals (both ferrous and non-ferrous)	• Expectations of deleveraging amongst India based companies due to improved cash flows and capacity reduction in China
Consumer Discretionary	O/w	• Auto & Auto ancillaries, Hospitality, select names in Home improvement and Consumer goods	• Focus on improving rural income, farmer welfare and the masses in general, should aid overall consumption
Industrials	O/w	• Construction, EPC and building materials	• The outlook for Infrastructure sector remains positive with expectations of pick up in activities and increased allocation of government resources
Telecom	E/w	• Companies where bulk of the capex is behind	• Industry should see the benefits of consolidation coming through gradually
Information Technology	U/w	• Prefer companies driven by higher revenue visibility, ability to adapt to industry disruptions and relative valuations	• Higher revenue visibility, ability to adapt to industry disruptions and relative valuations
Energy	U/w	• Project commissioning in the private / downstream refiners	• Potential to improve asset turns and return ratios
Consumer Staples	U/w	• Stocks with attractive valuations	• Underlying growth trends remains moderate and the valuations continue to remain expensive
Healthcare	U/w	• Prefer stocks with relatively higher growth, lower dependence on select drugs to drive revenues and the ones with lesser US FDA related concerns	• Relatively higher growth, lower dependence on select drugs to drive revenues, fair valuations and the ones with lesser degree of US FDA related concerns
Utilities	U/w	• Public sector companies	• Reasonable visibility of growth and are suffering from poor capital allocation

O/w – Over weight, U/w – Under weight, E/w – Equal weight, as at August 2018

Why optimal duration strategy?

Freedom to position the portfolio favorably

Performance

- Potential to capture the superior risk adjusted performance due to flexibility to move allocation towards favorable duration instruments

Volatility

- Potential to avoid extreme risks as the fund manager would aim to reduce duration in a volatile environment

Risk

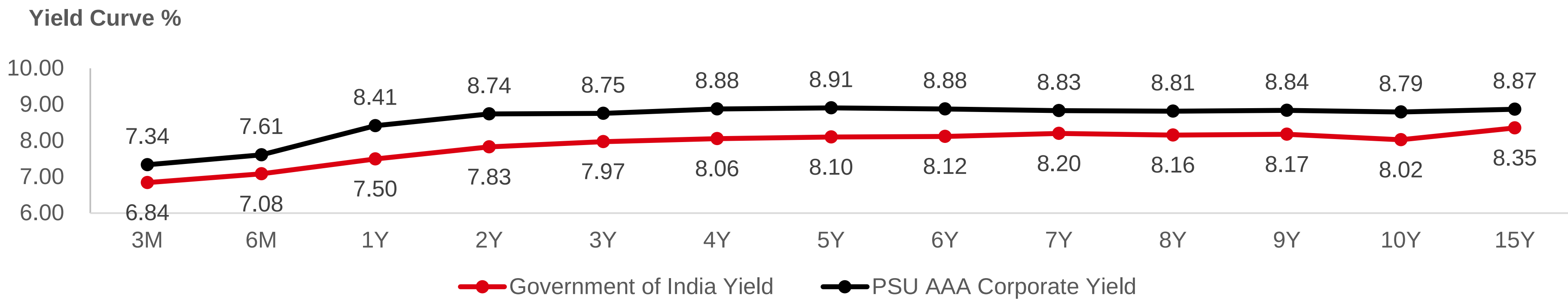
- Ability to avoid extreme risk as FM has a flexibility to position a portfolio in the favorable short-mid-long durations

Quality

- Investments in better rated credit quality instruments that generally have low capital risk

Potential opportunities in debt

Optimal duration strategy



Corporate bonds

- Corporate bond segment is expected to move in tandem with G-Secs
- There are pockets of better spreads opportunities. 6 months to 3 year corporate bond segment with over 200 bps over repo rate seems to have priced more than one rate hike by RBI.
- 5 year average spread is at 130 bps
- Going forward and therefore offers good carry with favorable risk reward.

Investment style

- Investors are saved from the predicament on whether they should invest in long bond or short bond oriented funds as the fund manager manages the portfolio composition based on the interest rate cycle.

Data as at August 2018

Who should invest in HEHF?

Suited for all types of investors

Cautious - New to equity

- HEHF is well suited for investors with no equity exposure due to volatility associated with equity asset class. HEHF can provide higher return potential with lesser volatility.

Moderate – Measured equity exposure

- HEHF is well suited for an informed investor who is looking for adequate exposure to equities at lesser risk

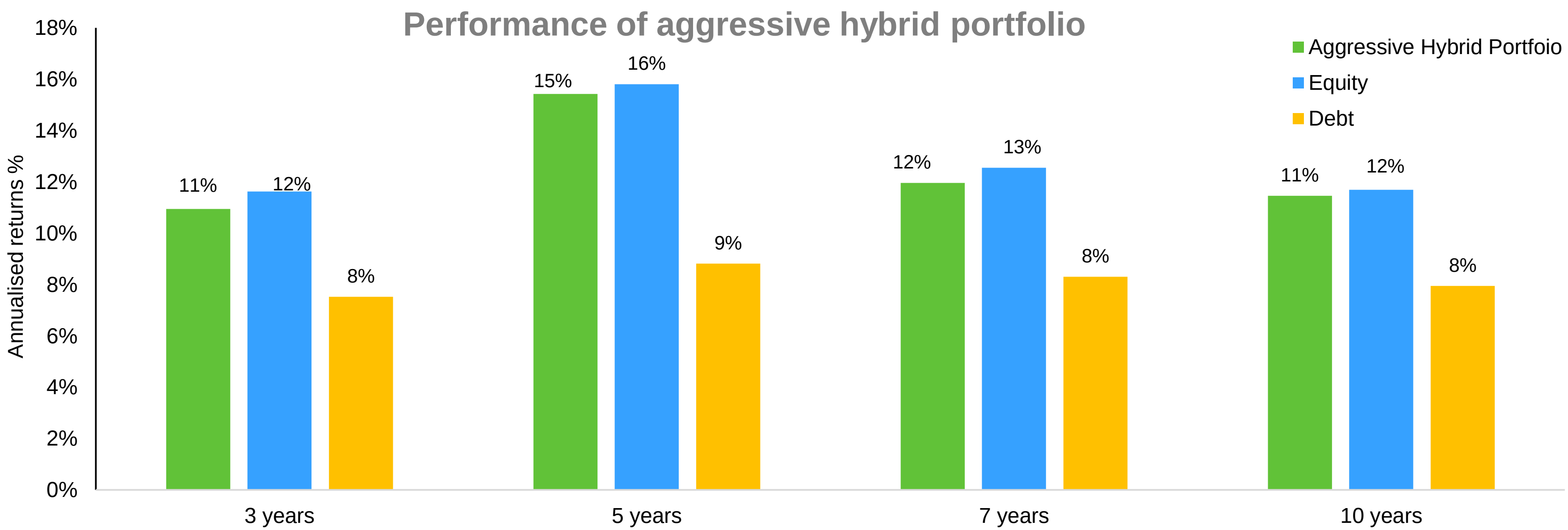
Disciplined – Balanced approach

- HEHF is best suited for investors looking for a cost effective and optimal asset allocation product

HEHF provides wealth-building opportunity

Prudent asset mix offers comparative risk adjusted performance across all timeframes

- Aggressive hybrid portfolio - as represented by the S&P BSE 200 TRI Index (70% weightage) and CRISIL Composite Bond Fund Index (30% weightage) – has been at par with equity (S&P BSE Sensex TRI) and has outperformed debt (CRISIL Composite Bond Fund Index) across all timeframes.



Higher equity allocation could help achieve growth and increase the potential of beating inflation in longer timeframes

Source: BSE, CRISIL Research
Aggressive hybrid portfolio represented by the S&P BSE 200 TRI Index (70% weightage) and CRISIL Composite Bond Fund Index (30% weightage), equity by the S&P BSE Sensex TRI and debt by the Crisil Composite Bond Fund Index
Point to point returns for the period ended 31 July 2018
Mutual fund investments are subject to market risks, read all scheme-related documents carefully. Past performance may or may not sustain and doesn't guarantee the future performance

Why should you invest in HEHF?

To be a disciplined investor

Optimal asset allocation

- Get exposure to two asset classes in one fund which are not just different, but complementary

Asset rebalancing

- Maintain the desired asset allocation level in your portfolio with asset rebalancing

Dual advantage

- Grow your investments with equity and stabilise the volatility with debt

Magical tax effect

- Switching between both asset classes for the desired asset allocation portfolio has no tax incidence #

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HEHF invest and rebalances portfolio within equity and debt asset class. HEHF has equity fund status and subject to equity taxation.

HSBC Equity Hybrid Fund (HEHF)

Fund snapshot

To seek long term capital growth and income through investments in equity and equity related securities and fixed income instruments. However, there is no assurance that the investment objective of the scheme will be achieved.

Fund Name	**HSBC Equity Hybrid Fund**
Benchmark	A customized index with 70% weight to S&P BSE 200 and 30% weight to CRISIL Composite Bond Fund Index.
Minimum Application Amount	Rs 5,000/- per application and in multiples of Re. 1/- thereafter
Minimum Application Amount (SIP)	Minimum Investment Amount - Rs. 1000 (monthly) or Rs. 3000 (quarterly); Minimum no. of instalments - 12 (monthly) or 4 (quarterly); Minimum aggregate investment - Rs. 12,000.
SIP/STP/SWP	Available

Type	An open ended hybrid scheme investing predominantly in equity and equity related instruments
Plans / Options / Sub options	Regular, Direct plans / Growth, Dividend / Payout, Dividend Reinvestment
Loads (including SIP / STP wherever applicable)	Entry Load* : Nil Exit Load:– Any redemption / switch-out within 1 year from the date of allotment: For 10% of the units: NIL, For remaining units: 1% If redeemed / switched out after 12 months from the date of allotment: NIL”
Fund Managers	Neelotpal Sahai for Equity Sanjay Shah for Debt

The exit loads set forth above is subject to change at the discretion of the AMC and such changes shall be implemented prospectively

*In terms of SEBI circular no. SEBI/IMD/CIR No.4/ 168230/09 dated June 30, 2009, no entry load will be charged by the Scheme to the investor effective August 1, 2009. Upfront commission shall be paid directly by the investor to the AMFI registered Distributors based on the investor’s assessment of various factors including the service rendered by the distributors. No exit load (if any) will be charged for units allotted under bonus / dividend reinvestment option.

Data as of 31 July 2018

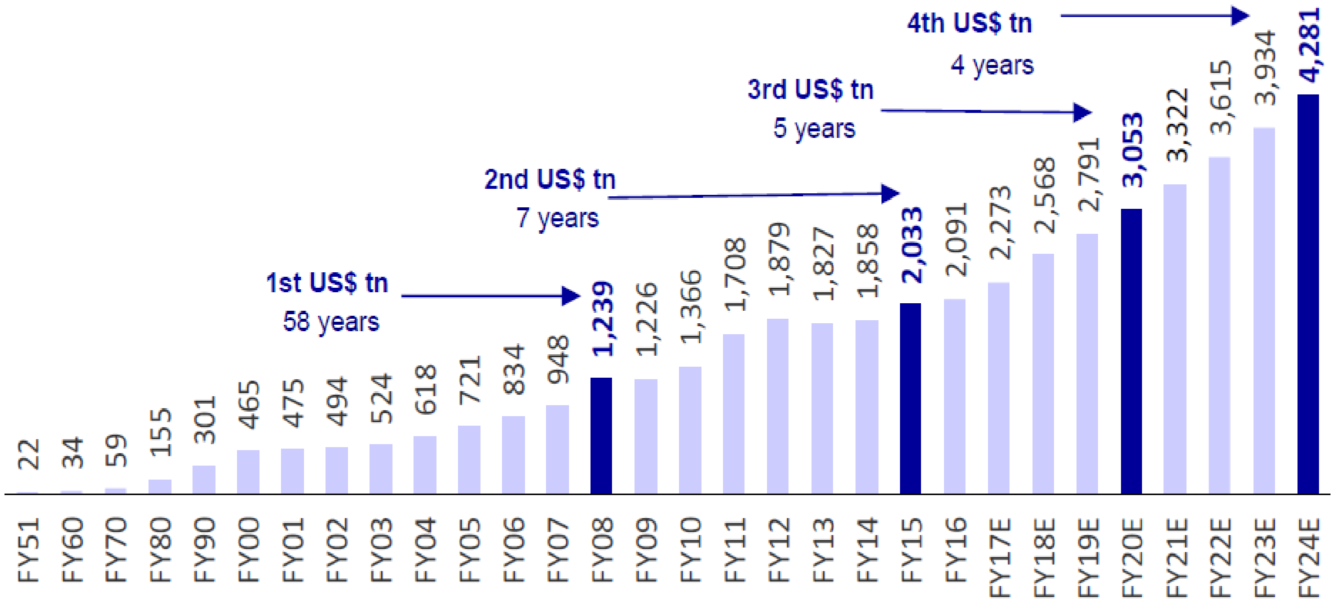
Scheme Name	Riskometer
HSBC Equity Hybrid Fund (Aggressive Hybrid fund – An open ended hybrid scheme investing predominantly in equity and equity related instruments) **This product is suitable for investors who are seeking*:** ☐ Long term wealth creation and income ☐ Investment in equity and equity related securities and fixed income instruments * Investors should consult their financial advisers if in doubt about whether the product is suitable for them.	 **Investors understand that their principal will be at Moderately High risk**

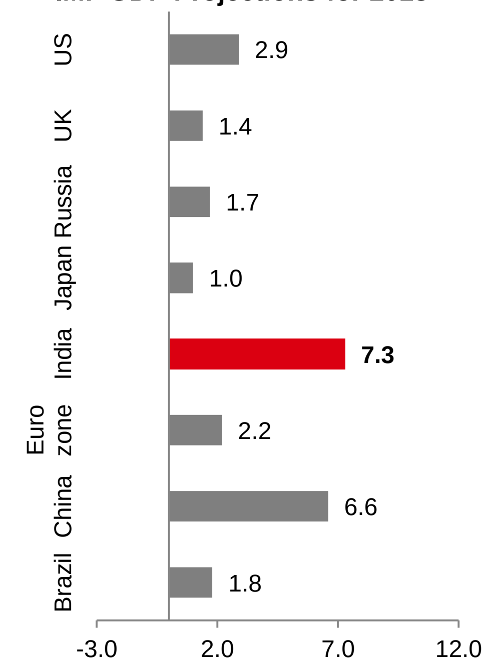
Market Overview

HSBC Global Asset Management

Encouraging signs of equity investments

India GDP estimated - 2024





India's GDP growth prospects are bright

- Global financial agencies are optimistic about India's growth prospects. According to World Bank data, India has now become the world's sixth-biggest economy
- The International Monetary Fund (IMF) has projected 7.3% growth in 2018 and 7.5% in 2019 for India as against 6.7% in 2017, making it the fastest growing country among major economies
- By 2024 India's GDP may double from the FY16 levels

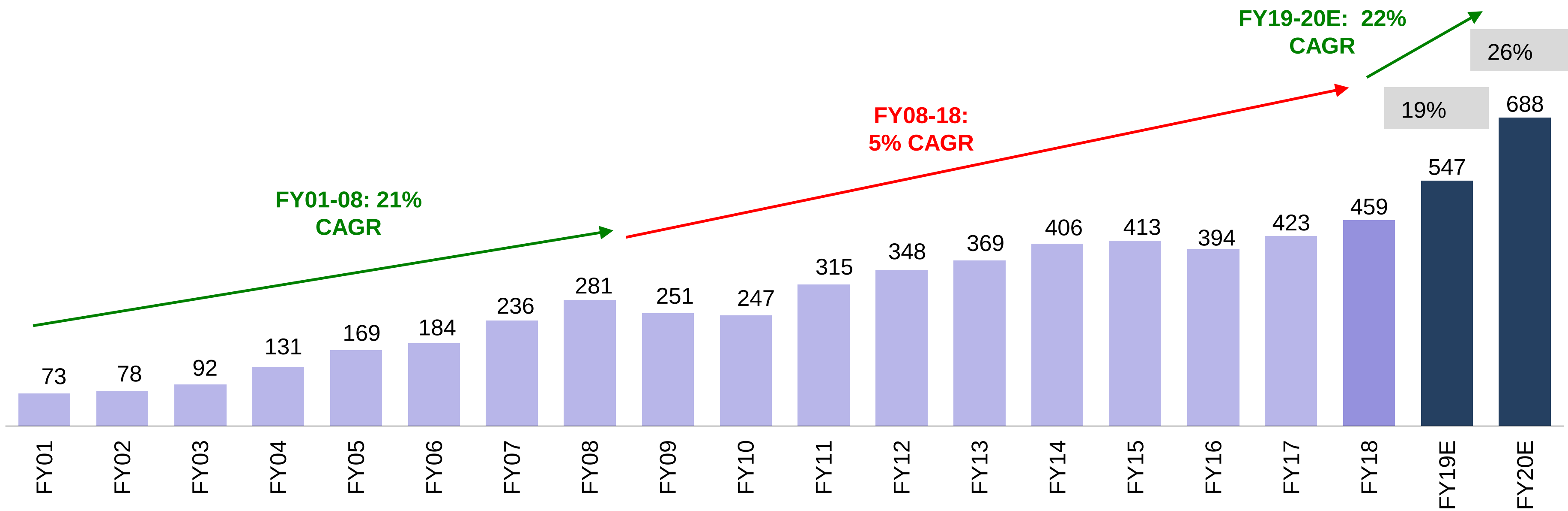
Corporates across market caps are likely to benefit from GDP expansion

Bloomberg, MOSL Wealth Creation Study, as at Dec 2017 – Chart 1, Chart 2 – IMF GDP Projections for 2018

Note - Above forward looking statements are based on external current views and assumptions and involve known and unknown risks and uncertainties that could affect actual results

Strong expectations on corporate earnings

Nifty EPS – expect reasonable rebound in FY 19-20



Nifty EPS is expected to rebound in FY 19-20 with about 22% CAGR* vs 5% CAGR in FY 08-18

- EPS estimates for Nifty at INR547/688 for FY19/FY20
- Lower base of FY17/18 to aid a sharp rebound in FY19-20

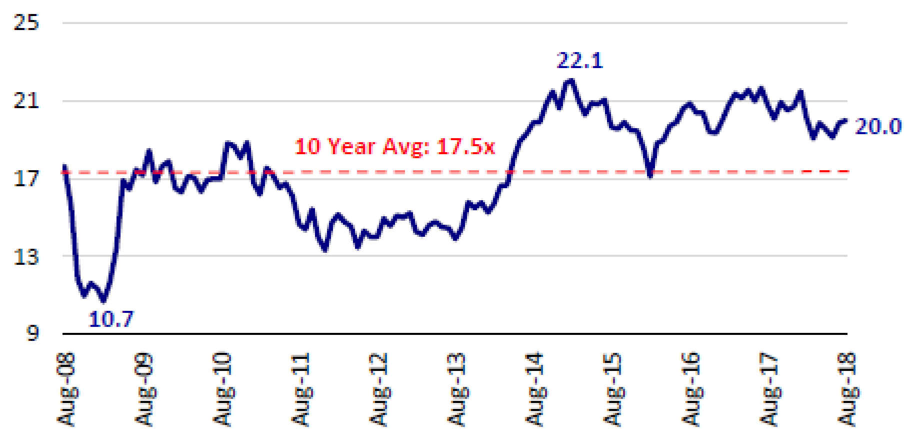
Strong expectations on the equities in FY19/20

Bloomberg, MOSL – India Strategy, as at Aug 2018, * On the basis of estimates by MOSL

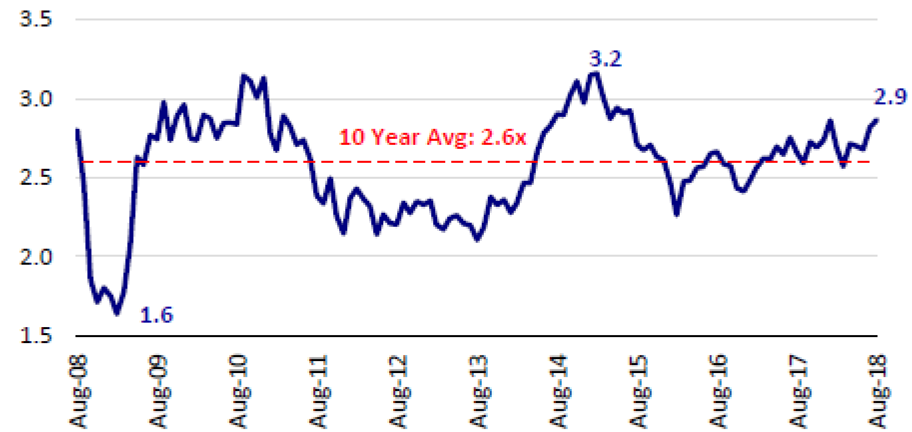
Equity valuations

Reasonably valued cash-rich companies are well positioned in current markets

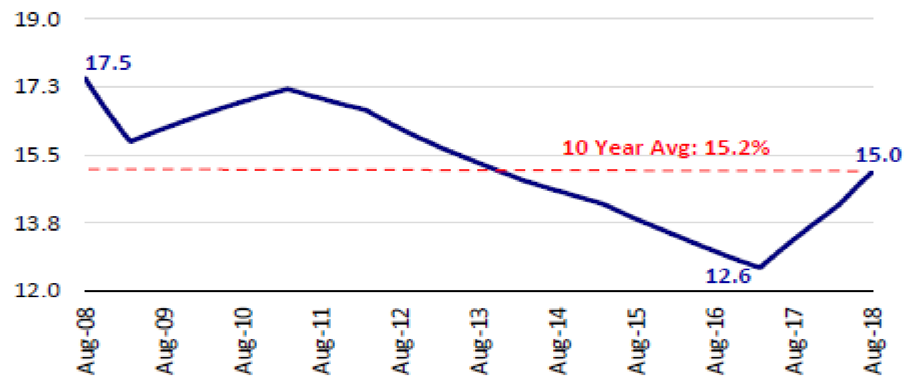
Price to Earnings - Sensex



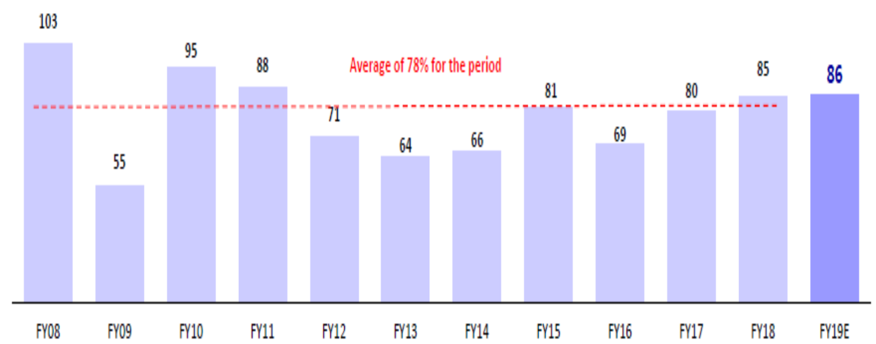
Price to Book - Sensex



ROE - Sensex



Trend in India's market-cap-to-GDP (%)



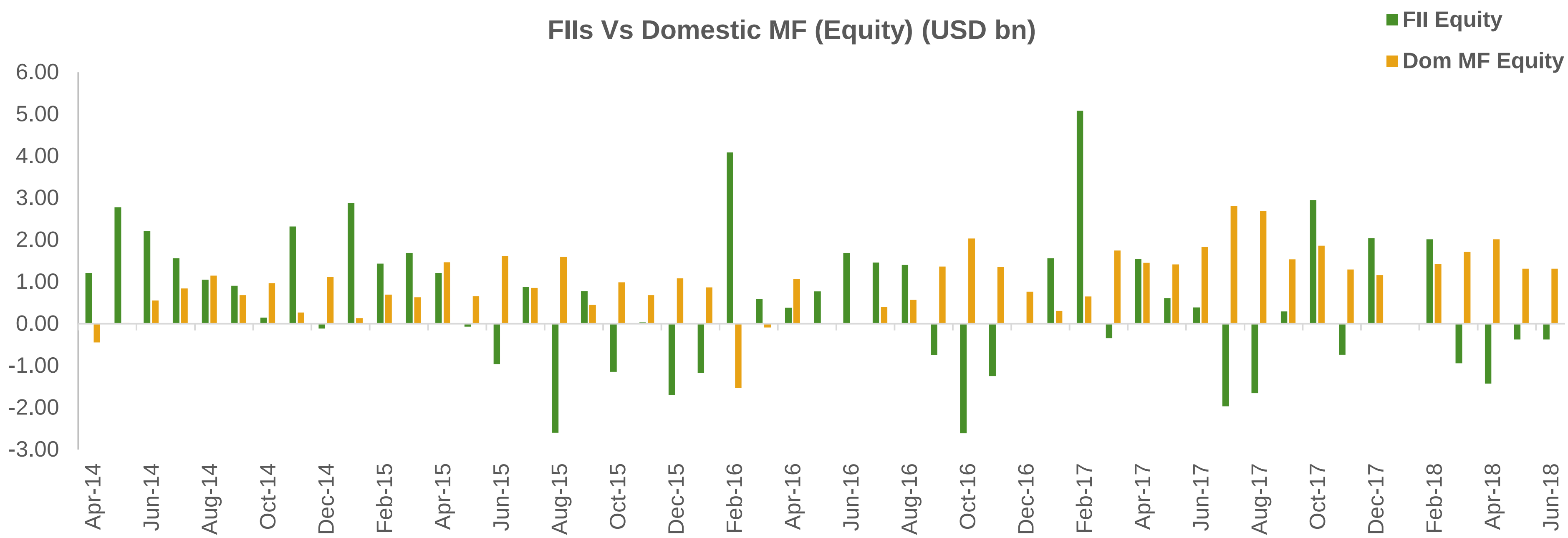
Moderate valuations in large caps

- Sensex trades at a 12M forward P/E of 20x, at a premium to long-period average of 17.5x
- At 2.9x 12M forward P/B of Sensex is also marginally above its historical average 2.6x
- RoE of the Sensex (forward) stands at 15.0%, around its long-term average of 15.2%

MOSL, Bloomberg – Bulls & Bears, as at August 2018, 12-month forward P/E (x), 12-month forward P/B (x),

Liquidity to support markets

Domestic equity inflows show visible expansion



Equity inflows to keep stocks trending

– India has recorded highest ever inflows by domestic MFs: $14Bn in CY17, 2.6X of CY16

Domestic equity inflows remain reasonably strong in 2018

Bloomberg, Data as at June 2018

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Equity market outlook

Constructive on India growth story

- GDP growth rebounds and economic activity normalizing after negative impact of Demonetization disruption, GST transition and Corporate sector deleveraging wanes.
- Government steps to address the growth issues, the bank recapitalization, and infrastructure push will help in hastening the overall economic growth revival process.
- Corporate earnings of Q1FY19 has confirmed rebound in earnings trend with Nifty companies' revenue and net profit grew by 24% and 20% respectively, excluding results of SBI and Tata Motors.
- Looking ahead, the GST regime will lead to faster formalization of the economy, broaden the tax base, improve the fiscal situation and improve the ease of doing business.
- IBC is another key reform that will lead to structural repair in the banking industry and this may go a long way in reviving the credit offtake in the economy, signs of which we are already witnessing.
- The factors to closely track in the near to medium term would be corporate earnings, RBI's policy actions, election calendar culminating in the general elections, global crude price dynamics, rising trend of trade war and protectionism in the developed economies, and the interest rate actions in the US.
- We remain constructive on the India story from a medium to long term perspective.

Expect meaningful acceleration in corporate earnings growth over the next 2 years

Debt market outlook

Short duration funds are favorable

- RBI's Monetary Policy Committee (MPC) minutes released in the middle of the month was largely on expected lines.
- GST collection continues to remain lower than the INR 1 trillion per month target. The reason has been cited as postponement of purchases given announcement of lower rates in mid-July. Going forward, heading into festive season as spending improves, collections are expected to increase.
- India Gross Domestic Product or GDP and Gross Value Added or GVA data came in higher than expectations at 8.2% and 8.0% vis-à-vis expectations of around 7.6% and 6.5% respectively.
- RBI has indicated that it would balance liquidity actively with choice of instruments depending on the whether the action is to tackle durable or transient liquidity.
- Going forward any positive movement will be driven by Open Market Operations or OMO announcement, statements by the government around fiscal balance being maintained, easing of global tensions or sharp and sustained reversal in oil prices.
- 10 year G-Sec is likely trade around 7.85 – 8.15 in the near term. In the near term, market will look for cues from oil prices, direction of currency movement and global cues.

"Neutral" stance on rates indicates a lower probability of further hikes in near term

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