

# HSBC Fund Update

## - HSBC Global Investment Funds - India Equity ("the Fund")

November 2011



### Summary

- ▶ The Fund performed strongly in October, gaining 7% (bid-bid, 1.4% offer-bid)
- ▶ Overweight positions in Materials and Healthcare added to performance mainly due to stock selection
- ▶ RBI indicated a pause in the monetary tightening phase, and raised the repo rate by 25bps to 8.5%
- ▶ The reporting season did not throw up any surprises
- ▶ Consumption remains buoyant especially in rural India and this along with a normal monsoon will support growth and overcome slowing investment and infrastructure spending
- ▶ Valuations remain attractive compared to the past 10 years and very attractive compared to the past 5 years with a much stronger economy and corporate sector

### Market review

The main events during October were the quarterly reporting season and the latest credit & monetary policy on 25 October. The Reserve Bank of India (RBI) raised the repo rate by 25 basis points (bps) to 8.5%, in line with consensus. This should be the peak of the interest rate cycle following 13 hikes starting from early 2010.

The RBI, in line with our expectations, indicated a pause in the monetary tightening phase as risks to growth became more prominent and their inflation road map indicated moderation over the next few months.

The RBI acknowledged that there are signs of Indian growth moderating on the back of anti-inflation monetary policy actions and the slow down in investment activity due to policy and regulatory matters.

The RBI's monetary stance continues to promote an interest rate environment which anchors inflation expectations but has added a focus on growth. The RBI cut their GDP growth forecast to 7.6% from 8% for FY2012 and maintained their 7% inflation forecast for 31 March 2012.

The reporting season has not thrown up any significant surprises. Indian earnings for CY2012 have been flattish in September and October after significant downgrades over the past few months relative to both Asia ex Japan and Global Emerging Markets.

## Portfolio strategy

The Fund rose 7% during the month.

Overweight positions in Materials and Healthcare added to performance mainly due to stock selection effect. Overweight positions in Consumer Discretionary (stock selection effect) and Industrials (sector allocation effect) hurt performance. Underweight Energy (stock selection effect) and Telecommunication services (sector allocation effect) added to performance. Consumer Staples, Utilities, Information Technology and Financials hurt performance mainly due to stock selection effect.

The key drivers of portfolio strategy are the ongoing sovereign crisis plus our view that Indian interest rates are close to the peak following very aggressive tightening by the RBI. This is premised on our view that inflation should peak in the December quarter and then moderate by 200-300bps over the following quarter. This view is supported by a normal monsoon (food inflation) and falling commodity prices but partially offset by the sharply weaker INR in August and September (flat in October).

We continue to reduce our underweight position in financials and add to domestic cyclicals (consumer discretionary, industrials). This is at the expense of cutting weight to expensive domestic defensives (consumer staples, utilities, telecoms).

We remain overweight healthcare as we see good relative visibility in these sectors – but with very selective stock picks. Finally, we continue to reduce materials (global concerns) and remain underweight energy (global concerns).

## Outlook

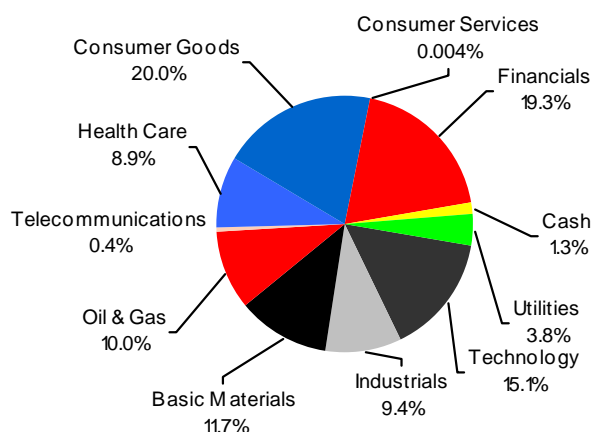
India has tightened interest rates and monetary policy very aggressively over the past few quarters. As the global economy slows and Indian inflation moderates this gives the RBI plenty of scope to cut rates if the Indian economy slows, ie, growth dips below 7% (we expect 7.5% GDP growth for the year ending 31 March 2012). We do not expect any further tightening going forward as inflation should begin to moderate in the next couple of months. On the back of this view, we continue to favour domestic cyclical sectors at the expense of domestic defensive sectors

Consumption remains buoyant especially in rural India and this along with a normal monsoon will support growth and overcome slowing investment and infrastructure spending. Going forward we see some signs of a pick up in investment spending as the government decision making process has churned out a few positive policy actions, such as easing environmental norms, and awarding of road projects.

Valuations remain attractive compared to the past 10 years and very attractive compared to the past 5 years with a much stronger economy and corporate sector.

*Source of macroeconomic data: Bloomberg & HSBC Global Asset Management (Hong Kong) Ltd, as of 31 Oct 2011. For illustrative purposes only and does not constitute investment recommendation to buy or sell in the above-mentioned sectors.*

## Sector allocation^



## Top 10 holdings^

Name	Sector	Weight (%)
Cairn Energy Plc	Oil & gas producers	8.7
HCL Technologies	Software & computer services	8.5
Maruti Suzuki India	Automobiles & parts	8.3
Jindal Steel & Power	Industrial metals	6.4
State Bank of India	Banks	5.0
United Spirits	Beverages	4.4
Mahindra & Mahindra	Industrial engineering	4.0
Aditya Birla Nuvo	Personal goods	3.9
Unitech	Real estate investment & services	3.0
Dr Reddy's Laboratories	Pharmaceuticals & biotechnology	2.8

## Performance#

USD Returns as at 31 October 2011					Annualised		
%	1 mth	3 mths	6 mths	1 yr	3 yrs	5 yrs	Inception (4 Mar 1996)
NAV	7.0	-16.3	-23.9	-30.3	24.7	1.8	18.5
NAV*	1.4	-20.7	-27.8	-34.0	22.5	0.8	18.1
S&P IFCI	7.2	-12.2	-16.0	-21.8	22.9	5.7	10.3

^Source: HSBC Investment Funds (Hong Kong) Limited as at 31 October 2011. For illustrative purposes only and does not constitute investment recommendation to buy or sell in the above-mentioned sectors/securities.

#Source: HSBC Global Asset Management & Morningstar, dividend reinvested in USD terms. \*Net of sales charge. Past performance is not indicative of future returns.



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