

HSBC Fund Update

– HSBC GIF Indian Equity

Market review

The Indian equity market continued to show positive traction, driven by domestic factors. The MSCI India Index gained 0.9% in USD terms. Domestic market indices BSE Sensex and NSE CNX Nifty gained 1.4% and 1.7% respectively. From the sector perspective, Materials turned out to be the best performer for the second month in a row, closely followed by Consumer Discretionary, while Telecoms were the worst performer followed by Information Technology.

Key events driving the market were:

- The landmark Good & Services Tax (GST) was passed in the upper house of the parliament in a unanimous manner. States have progressed very fast on ratifying the GST bill and the minimum requirement of 16 states before it can be presented for Presidential assent, will likely be achieved in the first few days of September itself.
- Monsoon rainfall moderated during August 2016, bringing down the chances of an above normal rainfall this season.
- The April-June 2016 quarterly earnings season was devoid of any major surprises and that may not help lift the earnings trajectory as yet, with hopes now pinning on 2QFY17 to show meaningful earnings recovery driven by a normal monsoon and pick-up in domestic consumption.
- Government announced the appointment of Urjit Patel, who is currently the deputy governor of Reserve Bank of India (RBI) and in charge of monetary policy since 2013, as the new RBI Governor to replace Mr Rajan. While Mr Patel was one of the five candidates on the short list, his appointment was least expected by markets and the media in general due to his known hawkish stance, both on inflation and fiscal deficit.

Portfolio strategy

The Fund gained and outperformed the benchmark index, helped by stock selection in financials, consumer discretionary and energy.

Indian Bank was a strong contributor as results for 1QFY17 reflected an improvement in asset quality and lower. Axis Bank also performed well for the fund on count of better-than-expected asset quality in its results. The non-holding of Sun Pharmaceutical was beneficial for benchmark relative performance as the stock underperformed due to the challenges related to the US FDA and pricing pressure on some of its products. LIC Housing has outperformed as announced falling wholesale costs of funding may lead to improving margins for the company.

While sector allocations are primarily an outcome of bottom-up stock selection, the underweight to telecoms and healthcare helped the fund's relative performance.

Outlook

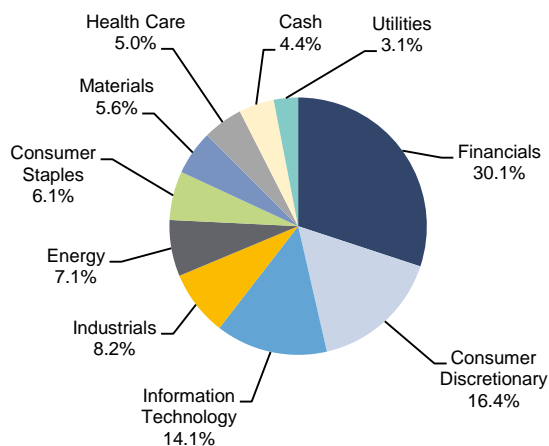
We remain positive on the outlook for the Indian market. Outlined below are the three key structural changes that will have a long term favorable impact on the economy.

- Controlling the cost of capital -- Under its new mandate the central bank will be targeting inflation within a range. We believe that this will help lower the cost of capital (both debt and equity) structurally leading to revival in investment cycle and make domestic manufacturing competitive in the medium to long term.
- Targeting subsidies and reducing the fiscal deficit – This will ensure the delivery of subsidies directly into the bank accounts of the beneficiaries in our view and also, over a period of time, help reduce the government's subsidy burden and fiscal deficit.
- Reforming state power companies – This should reduce the cost of power and also have a cascading impact on productivity growth both in manufacturing and the rural economy.

These factors could help bring about structural gains for the economy as a whole. Also, aspects such as lower global commodity price environment and improving capital flows into the country through Foreign Direct Investment (FDI) route could position India favorably.

Source: HSBC Global Asset Management (Hong Kong) Limited as of 31 August 2016. Data shown is for illustrative purposes only and does not constitute any investment recommendation. Past performance is not indicative of future returns.

Sector allocation¹



Top 10 holdings¹

Name	Sector	Weight (%)
Infosys Ltd	Information Technology	6.7
Axis Bank Limited	Financials	5.4
Icici Bank Ltd	Financials	5.2
Maruti Suzuki India Ltd	Consumer Discretionary	5.0
Itc Ltd	Consumer Staples	4.7
Tata Motors Ltd	Consumer Discretionary	4.5
Housing Development Finance	Financials	4.2
Hcl Technologies Ltd	Information Technology	3.8
Hdfc Bank Limited	Financials	3.3
Lic Housing Finance Ltd	Financials	2.7

Performance²

HSBC GIF Indian Equity Class AD					Annualised		
%	1 mth	3 mths	6 mths	1 yr	3 yrs	5 yrs	Inception (1 Mar 1996)
NAV	3.7	11.5	32.2	4.4	16.8	1.5	14.4
NAV*	-1.7	5.6	25.2	-1.0	14.7	0.4	14.1
BM	2.0	10.1	29.4	11.8	20.4	6.0	9.1

Source: 1. HSBC Investment Funds (Hong Kong) Limited as at 31 August 2016. Data shown is for illustrative purposes only and does not constitute any investment recommendation.

2. HSBC Global Asset Management & Morningstar, Inc. as at 31 August 2016, dividend reinvested in USD terms.

*Net of sales charge. Past performance is not indicative of future returns. BM = Benchmark = S&P/IFCI India Index.

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