

HSBC's disciplined approach to managing money in India

HSBC Global Asset Management's global investment process creates consistent performance of its funds for Indian investors. Ravi Menon explains how the firm is using this competitive edge to look for new distribution channels.

The longevity of HSBC as a group in India is a competitive advantage that the firm believes stands it in good stead to take its offering to the next level in the country.

Having operated in India since 1853, the group clearly knows the difficulties of being a foreign player.

"If you don't have a long-term plan in place [in India], then you shouldn't be here," says Ravi Menon, chief executive officer of HSBC Global Asset Management's (AMG's) local business.

"There are no short-cuts to growth and success in this country, but there are, we believe, the right strategies [to generate] the right returns," he adds.

The firm's credibility in India is based on several factors. For example, it is one of the largest managers / sub-advisers in the country. Today, the investment management team located in Mumbai manages/advises strategies with assets

of USD22.3 billion. And with over USD21 billion of that in a combination of mandates and offshore advisory, long-term is part of the culture.

Further, of its current AUM, it has assets of around USD2.34 billion of Indian equities managed globally and USD19.98 billion of Indian fixed income managed globally.

It is also the only global player in India managing EPFO (Employees Provident Fund Organisation) since 2008. Plus, it was the first player to remove exit loads from all schemes across categories.

"We are a well-recognised brand [in India]... which conveys greater strengths and attributes," added Menon.

DOING THE BASICS WELL

The firm is among the top five or six fund houses in India, operating across mutual funds, portfolio management and advisory.



RAVI MENON
HSBC Global Asset Management

HSBC group clients include all four lines of business – across retail banking, private banking, commercial banking, and global banking and markets.

“Whilst we have a significant core advantage of providing investment solutions to all HSBC group clients, our ambition and strategy is also to capitalise on the big Indian opportunity through third-party distribution,” explains Menon.

The company has 24 funds by which it looks to do this, across equities, fixed income, liquidity and multi-asset. In particular, Menon highlights the multi-asset approach and the funds called Managed Solutions: “This is a core strength of HSBC and no-one else has made the kind of investments in this

noring stocks with poor corporate governance, inefficient capital allocators and poor quality of business.

The performance since inception speaks for itself – 27.9% average one-year return, and 7.7% average alpha created year-on-year.

PRIORITIES

More broadly, HSBC AMG has some significant growth plans in India, in line with the vast opportunities that Menon says that he sees across the entire group's business.

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product strategy as we have. That's a unique offering for us.”

He is also proud of the HSBC Equity Fund, a large-cap strategy that has seen 18-times growth over the last 14 years. It maintains a portfolio that mainly comprises large-cap stocks, without exposure to excessive risk – in line with the risk appetite of investors. The strategy is centred on superior quality businesses that generate sustainable growth. “This is a disciplined, repeatable approach to generate long-term alpha – good stocks at inexpensive valuations that can get re-rated versus popular stocks at high valuations,” says Menon.

It is a play on the power of compounding, he adds, avoiding accidents by ig-

Outside of servicing its internal banking channels, the asset manager also wants to become more relevant to a couple of key segments in the retail market. To do this, it will start to engage more closely with its distribution channel partners to deliver on the needs of investors – starting with education and being the international knowledge partner to IFAs.

This has been a priority for all fund houses in the country over recent years. “We want to have that partnership dialogue,” says Menon, “to understand what investors are looking for as incomes increase, and goals and needs change.”

HSBC AMG also plans to leverage its ability to take Indian product to eligible

Living the HSBC AMG Investment philosophy

- A well-established relationship between profitability and valuation
- Excess volatility in equity markets implies that stocks are often mispriced
- This creates the potential for an active investment opportunity that can be confirmed with proprietary fundamental research
- Markets revert to a measure of 'relative intrinsic value' over time, hence we are patient investors with a strict valuation discipline and long-term investment horizon
- Concentrating overweight positions in profitable companies at below-average valuations will enhance returns

investors overseas, as well as bring its offshore funds to local investors in India.

DELIVERING ALPHA

To find what it believes are the best opportunities for investors, the overarching investment philosophy for HSBC AMG is price to book / return on equity (PBRoE), which the firm believes is effective for global emerging markets.

In short, this means screening for companies with below-average valuations for a given profitability. Tested by the firm's research team, this has been shown to outperform over a period of years at both regional and country levels. ■