# HSBC Fixed Term Series 140 (HFTS 140) – 1147 days plan

**11/04/2019**

# New Fund Offer: 16 April – 25 April 2019

## What is a fixed maturity plan (FMP)?

FMP is a close ended income scheme with a portfolio of debt and money market instruments which has a fixed tenure. They run for a fixed period of time that could range from one month to as long as three years or more. The objective of an FMP is to generate a return over a fixed maturity period, while FMPs are exposed to market / credit risks like other mutual fund products.

## Why invest in FMPs

1. **Tax Efficiency**^: FMPs with more than 3 years tenure attract long term capital gains tax. FMPs also allow investors to account for inflation (through indexation) and therefore may reduce tax liability on the income earned.

## Impact of Indexation in FMPs - Illustration:

| Amount Invested (INR) | 100 |
|---|---|
| **Return per annum (compounded annualised) ^^** | 7.50% |
| **Indexation cost at 4.57%* (INR)** | 114.35 |
| **Future Value of Principal (FV of 100 @ 7.5% for 1147 days) (INR)** | 125.52 |
| **Post indexation gain (FV- Indexed cost) (INR)** | 11.17 |
| **Tax on capital gains at 22.88%** (INR)** | 2.56 |
| **Post Tax gain** | 122.96 |
| **Post tax return (compounded annualised)** | 6.80% |

^^ Returns per annum assumed at 7.5% only for illustration purpose only
** Income assumed to be less than INR 10 million
*Indexation cost assumed for illustration purpose; Inflation assumed @ 4.57% p.a. (average of 5 years CPI index)
^The information provided is based on the prevailing tax laws.
Note - You are advised to consult your tax advisor for detailed tax implication at the time of maturity. Above example in the table is for illustrative purpose only to understand indexation and should not be construed in any manner as an indication of returns
** for long-term debt instruments

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2. **Diversification**: In general, FMP allows investors to participate in a variety of debt and money market instruments thereby creating diversity of risk adjusted returns.

3. **Relatively low cost product**: Generally the expenses of FMPs tend to be comparatively lower than other more actively managed products. Hence, for similar portfolios, the product with lower expenses may offer a better rate of return.

4. **Relatively low interest rate risk**: This being a closed ended fund, a typical investor would stay for the term of the product so to that extent there is significantly low interest rate risk compared to similar open ended funds.

## More reasons for investing in FMPs?

As such, we believe that it makes sense for a risk averse investor to lock in the prevailing yields. We expect systemic liquidity to remain comfortable in the near-term, as we believe the Reserve Bank of India may continue to proactively manage liquidity. In such a scenario, yields at the shorter end of the yield curve are expected to remain relatively stable and may provide reasonable risk-adjusted returns.

However, it should be noted that FMPs are close ended products and hence investors who may require intermediate liquidity might consider other relative open ended debt funds. Investors who wish to exit / redeem FMP before the maturity, may do so through stock exchange mode.

## Investment Objective

To seek generation of returns by investing in a portfolio of fixed income instruments which mature on or before the maturity date of the Plan. However, there is no assurance or guarantee that the investment objective of the Plan will be achieved. The Plan does not assure or guarantee any returns.

## Investment Strategy

HFTS 140 will invest predominantly in debt and money market instruments where interest rate risk is relatively low to medium. The funds will be invested in a portfolio of debt and money market instruments maturing within the maturity date of the plan. The fund aims to invest about 67% to 72% in AAA rated and 15 to 20% in AA rated NCDs. Also the fund has provision to invest 8 to 13% in government securities.

** for long-term debt instruments, Please refer to page 3 for complete disclosure for type of instruments with intended allocation and other disclosures.

## Key Risks

The product would be exposed to various risks such as credit risk, concentration risk, liquidity risk, interest rate risk, etc. Refer the SID for detailed risk factors.

| Important dates for HFTS 140 (1147 days) | |
|---|---|
| **Opening Date** | 16-Apr-19 |
| **Closing Date** | 25-Apr-19 |
| **Allotment Date** | 26-Apr-19 |
| **Maturity Date^^** | 15-Jun-22 |
| **Fund Manager** | Kapil Punjabi |
| **Benchmark** | CRISIL Composite Bond Fund Index |

| Scheme Name | Riskometer |
|---|---|
| **HSBC Fixed Term Series 140**<br>**This product is suitable for investors who are seeking*:**<br>▶ Income over the term of the Plan;<br>▶ Investment in debt/money market instruments | <br>**Investors understand that their principal will be at Moderate risk Moderate (Plans with maturity above 1100 days)** |



* Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

^^If such a day is not a Business Day, the immediately succeeding Business Day will be considered as the maturity date.

The asset allocation of HFTS 140 will be as follows:

| Type of Security | Normal Allocation | Risk Profile |
|---|---|---|
| Debt instruments | 80% - 100% | Low to Medium |
| Money Market instruments | 0% - 20% | Low to Medium |

The Plan will not invest in securitized debt. The total exposure to Debt and Money Market Instruments will not exceed 100% of the net assets of the Plan.

The Plan will invest predominantly in debt and money market instruments where interest rate risk is low to medium. The Fund Manager shall adopt the following allocation in the Plan with respect to the asset class of securities. The floors and ceilings within a range of 5% of the intended allocation against each sub asset class/credit rating will be as follows:

| Security / Credit Rating of securities | A1+* (%) | AAA** (%) | AA** (%) | A** (%) | Others (credit rating not applicable) (%) |
|---|---|---|---|---|---|
| **Money market instruments** | | | | | |
| CDs | – | – | – | – | – |
| CPs | – | – | – | – | – |
| TREPS^, Reverse repo in government securities and treasury bills | – | – | – | – | – |
| **Debt instruments** | | | | | |
| NCD | – | 67-72 | 15-20 | – | – |
| Government securities | – | – | – | – | 8-13 |

^ Tri-party Repo (TREPS) : With effect from November 5, 2018, CBLO has been replaced by Tri-party Repo

* for short-term instruments

** for long-term debt instruments

Notes:

1) The Plan under the Scheme will not invest into any unrated debt securities.
2) Securities with rating A and AA shall include A+ and A- and AA+ and AA- respectively.
3) All investments shall be made based on the rating prevalent at the time of investment. However, in case of an instrument having dual ratings, the most conservative publicly available rating would be considered.
4) Positive variation in investments towards higher credit rating in the same instrument shall be allowed.
5) In case instruments / securities as indicated above are not available or taking into account risk reward analysis of instruments / securities, the Scheme may invest in PSU Bank Certificate of Deposits (CDs) and or any other bank CDs having highest ratings and if such CDs are not available, investments will be made in CBLOs / T-bills / Reverse Repo and Repo in Government securities. Such deviation may exist till suitable instruments of desired credit quality are available.
6) At the time of building up the portfolio post NFO and towards maturity of a Plan, there may be higher allocation to cash and cash equivalents.
7) During the tenure of the Plan, the above allocation may vary due to instances like (a) coupon inflow; (b) the instrument is called or bought back by the issuer (c) in anticipation of any adverse credit event etc. In case of such deviations, the Plan may invest in highest rated CDs (i.e. A1+ or equivalent) / CBLOs / Reverse Repo and Repo in Government Securities or T-Bills.
8) There will be no variation between the intended and final portfolio allocation in the Plan, subject to notes 4-7 above.
9) The Plan will not participate in repo in corporate debt securities.
10) The Plan will not engage in short selling of securities or securities lending and borrowing.
11) The Plan will not participate in Credit Default Swaps or invest in foreign securities.
12) The Plan will have no exposure to Derivative instruments.

Note: As the interest rates are subjected to sudden volatility, any sudden and unanticipated movement in the interest rates post the launch of the FTS might lead to adverse investor sentiment. This could result in the scheme not being able to garner the minimum amount required to sustain the launch and in such a situation the collected monies will be returned to the investors.

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The AMC and/or its empanelled distributors have not and shall not give Scheme's indicative portfolio / yield in any communication or any manner, whatsoever. Also, please note that FTS is not a capital protection/guarantee fund and the investors run the risk of losing their capital or a part of it in case of credit default / restructuring. These disclosures are made in the scheme information documents explicitly - investors are requested to be fully aware of these risks prior to investing.

**Mutual Fund investments are subject to market risks, read all scheme related documents carefully.**

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