HSBC Low Duration Fund (HLDF)

Low Duration Fund - An open ended low duration debt scheme investing in instruments such that the Macaulay duration^ of the portfolio is between 6 months to 12 months. 1 Please refer Page no. 9 of the SID for explanation on Macaulay duration. Relatively low interest rate risk and moderate credit risk.

Date: October 2022

Fund Details

Fund Manager[3]
Kapil Punjabi

AUM (as on 30.09.22)
189.21 Cr

Minimum Investment

Lumpsum	SIP	Additional Purchase
₹ 5,000	₹ 500	₹ 1,000

Average Maturity	6.65 year
Modified Duration	6.32 year
Macaulay Duration	6.56 year
Yield to Maturity [2]	6.83%

Benchmark
CRISIL Low Duration Fund B-I Index [4, 5]

Inception Date
17 October 2006

Exit Load
NIL

Current Portfolio Strategy

- HSBC Low Duration Fund is focused on different segments of money market curve. The overnight funding cost should now move closer to 5.90% given the increase in SDF and repo rates. Excess system liquidity has also now moderated significantly post CRR hike, increase in government cash balances with RBI and forex outflows.
- The RBI's trajectory in terms of rate hikes will determine the evolution of the money market and the short end of the yield curve. In the current fiscal year, we have seen a sharp move in yields in the up to 2-year segment of the yield curve and the steepness in the curve up to 1-yr and from 1-yr to 2yr is relatively attractive, factoring in further rate hikes in the near term.
- The overnight fund invests only in overnight asset. Overall, we remain neutral on duration as markets re-price yield curve given RBI's rate hiking cycle. The focus continues to be on the accrual returns in the portfolio.

Investment Objective:

To seek to provide liquidity and reasonable returns by investing primarily in a mix of debt and money market instruments such that the Macaulay duration of the portfolio is between 6 months to 12 months. However there can be no assurance or guarantee that the investment objective of the scheme would be achieved.

Product Note

[1] Pursuant to the circular issued by SEBI on 'Categorization and Rationalization of the Schemes, there has been change in the fundamental attribute(s) of the aforesaid effective from Mar 14, 2018.

[2] YTM Based on invested Amount

[3] The benchmark was changed w.e.f. 11th November, 2016 as a more suitable bench mark was identified which better matched the portfolio strategy. There has been no change to investment management of the scheme.

[4] SEBI vide its circular no. SEBI/HO/IMD/IMD-II DF3/P/CIR/2021/652 dated October 27, 2021, on 'Guiding Principles for bringing uniformity in Benchmarks of Mutual Fund Schemes' has introduced two-tiered structure for benchmarking of certain categories of schemes. Accordingly, the benchmark has been classified as Tier 1 benchmark. Furthermore , the same is effective from 01 December 2021. [5] Fund's benchmark has changed with effect from April 01, 2022.

^ The Macaulay duration is the weighted average term to maturity of the cash flows from a bond. The weight of each cash flow is determined by dividing the present value of the cash flow by the price. Please refer to the page number 9 of the Offer Document on which the concept of Macaulay's Duration has been explained

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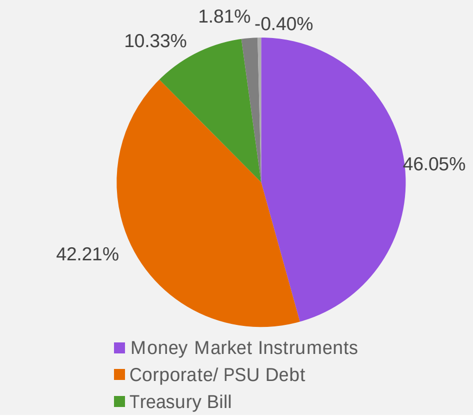
Portfolio

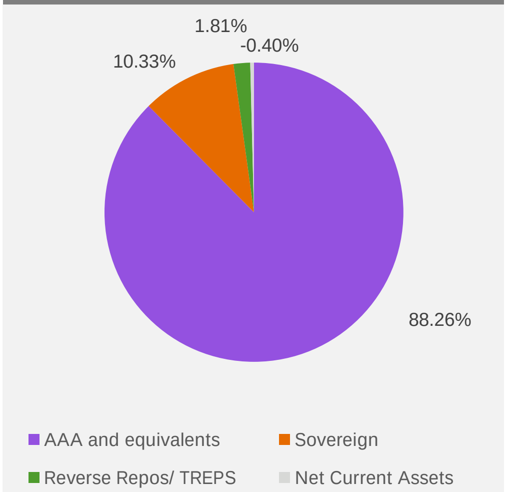
Issuer	Rating	% to Net Assets
Corporate/ PSU Debt		
Corporate Bonds / Debentures		42.21%
Power Grid Corporation of India Limited Top 10	CRISIL AAA	9.49%
Rec Limited Top 10	CRISIL AAA	8.43%
Bajaj Finance Limited Top 10	CRISIL AAA	8.02%
LIC Housing Finance Limited Top 10	CARE AAA	7.97%
HDB Financial Services Ltd.	CRISIL AAA	5.54%
L&T Finance Limited	CRISIL AAA	2.76%
Money Market Instruments		
Certificate of Deposit		46.05%
Small Industries Development Bank of India Top 10	CARE A1+	10.30%
Canara Bank Top 10	CRISIL A1+	7.79%
Indian Bank Top 10	ICRAA1+	7.79%
HDFC Bank Limited Top 10	CARE A1+	7.55%
Export Import Bank of India Top 10	CRISIL AAA	7.46%
National Bank for Agriculture & Rural Development	IND A1+	5.16%
Treasury Bill		10.33%
182 DAYS T-BILL 23FEB23 Top 10	Sovereign	5.16%
182 DAYS T-BILL 15DEC22	Sovereign	2.61%
182 DAYS T-BILL 23MAR23	Sovereign	2.56%
Cash Equivalent		1.41%
TREPS*		1.81%
Net Current Assets:		-0.40%
Total Net Assets as on 30-SEPTEMBER-2022		100.00%

*TREPS : Tri-Party Repo

Asset Allocation



Rating Portfolio



Rationale on existing credit exposures*

1. Small Industries Development Bank of India: Small Industries Development Bank of India (SIDBI), set up on April 2, 1990 under an Act of Indian Parliament, is the principal financial institution for the promotion, financing and development of the micro, small and medium Enterprise (MSME) sector in India. SIDBI provides finance in two forms viz. indirect finance by way of long term loans, working capital facilities, discounting/rediscounting bills of exchange and refinance to Primary Lending Institutions and Micro Finance Institutions. SIDBI is also among the top 30 Development Banks of the World. SIDBI has 3 subsidiaries: SIDBI Venture Capital, SIDBI trustee Co and the newly created MUDRA. Following an amendment to the SIDBI Act in 2000, the equity held by IDBI was transferred to various PSU banks, government-owned insurance companies and financial institutions. is jointly owned by the GoI (largest shareholder with a stake of 20.85%), SBI (with a stake of 15.65% as on March 31, 2022), LIC (13.33%) and other PSBs (the balance). SIDBI is the nodal agency for government schemes targeted towards the MSME sector and in the past SIDBI has received budgetary support, support from RBI and GOI guarantee of foreign government borrowing suggesting implicit GOI support.

2. Power Grid Corporation of India Ltd.: PGCIL was incorporated in 1989 to set up extra-high voltage alternating current and high-voltage direct current (HVDC) transmission lines. The company moves large blocks of power from the central generating agencies and areas that have surplus power to load centers within and across regions. It is under the administrative control of the Ministry of Power, GoI. The company owns and operates an extensive nationwide network of transmission lines, which mainly comprise 400-kilovolt transmission lines and HVDC transmission systems, carrying more than 45% of the total power generated in India. It owns about 85% of the interstate transmission network. The regulatory framework is structured by Central Electricity Regulatory Commission (CERC), which helps to generate stable revenue and cash flow. Tariff recovery is linked to transmission network availability maintained by the company and is not impacted by actual power transmitted through the network that could be extraneous to its control. Also, the tariff structure ensures recovery of all expenses, including debt-servicing charges, and provides for a fixed return on equity (RoE), if the company adheres to operational benchmarks. The tariff structure also ensures recovery of annual obligation for debt contracted to finance capex in transmission projects and funded in a debt-to-equity mix of 70:30.
3. Rural Electrification Corporation Ltd: REC is a public financial institution under the administrative control of Ministry of Power. Until 2003, REC's primary objective was to provide financial assistance on concession to SPUs for rural electrification. RECs mandate was broadened in 2003 to include financing of all segments of the power sector. It provides financial assistance to state electricity boards (SEBs) for financing transmission, distribution and generation projects. REC's credit profile derives strength from government ownership and support it receives from it. The credit profile is also supported by its good resource profile and adequate capitalization and profitability. Entity's asset quality issues are likely to have bottomed out, similar to case of PFC. Post-acquisition of REC by PFC, rating agencies have reaffirmed both agencies at AAA, taking into account mainly the strategic importance of the company. PFC and REC are expected to continue to be strategically important to the Government of India and will continue to play an important role in funding of power projects, especially those of the state government owned electricity companies. Recent policy actions in terms of liquidity support to discoms which have been have been undertaken through REC and PFC, reiterate its strategic importance.
4. Bajaj Finance Ltd: Bajaj Finance is the flagship NBFC of the Rahul Bajaj group having a diversified loan book with exposure in various segments like consumer finance, SME finance, commercial finance and rural finance. Strong parentage of Bajaj group, strong scale up over the past few years coupled with high profitability while maintaining good asset quality at the same time are positives from a credit standpoint. The company is well capitalized and has a strong resource profile. Company has carved a niche for itself in areas such as consumer financing with strong manufacturer dealer relationships and wide presence. Company has also focused on cross selling significantly to its own customer base which further enhances its profitability.
5. LIC Housing Finance Ltd: LICHF is the second largest housing finance company in India after HDFC/Individual loan portfolio. Credit strength is derived from the support of the parent (LIC), sound capitalization and healthy resource profile. Asset quality has remained strong and stable in the past few years and given that the book is largely retail and to salaried customers; it is likely that these levels are maintained as the portfolio continues to grow. Company has started to expand the non-housing segment in a calibrated way, which helps improve the yields, and at the same time has been able to maintain low level of overall delinquencies. Retail housing is ~85% of the total book. A large number of LIC Housing's senior management personnel are on deputation from LIC. LIC has also committed to not allowing its stake to fall below 33% which gives a strong support to its rating. Expect continued support over long term in terms of ownership, common branding and managerial inputs.
6. Canara Bank: Canara Bank is one of India's larger PSBs, with total advances and deposits of Rs 7.83 lakh crore and Rs 11.18 lakh crore, respectively, as on June 30, 2022. The merger of Syndicate Bank has also strengthened the market position of the bank. It has a Pan-India branch presence, with around 9,732 domestic branches and 10,802 automated teller machines (ATMs) across the country on the same date. It also has overseas branches at three locations. Revenue is diversified across businesses, products and geographies, augmenting the strong overall market position. The bank has a strong franchise in the large and mid-size corporate banking segments. Besides banking, it undertakes factoring, asset management, insurance and retail and institutional broking services through its subsidiaries and associates. The asset quality of the bank, with gross non-performing assets (NPAs) of 6.98% as on June 30, 2022 (7.51% as on March 31, 2022) remains modest, albeit with an improving trend.
7. Indian Bank: Indian Bank is a medium-sized bank. In 2007, it made its initial public offering, resulting in dilution of ownership of GoI to 80%. GOI's ownership further reduced to 79.86% following the issuance of shares under amalgamation to the shareholders of Allahabad Bank. Following the amalgamation, the merged entity enjoys the benefits of a larger balance sheet, optimised capital utilisation and wider geographic reach leading to deeper penetration. Bank has a strong domestic branch network comprising 5,732 branches and 4,925 ATMs & BNA. The bank also has three overseas branches located at Singapore, Colombo and Jaffna. Indian Bank's gross advances stood at Rs 425,203 crores as on June 30, 2022. Asset quality of the bank, with reported gross NPAs of 8.13% as on June 30, 2022 (8.47% as on March 31, 2022), remains modest, albeit with an improving trend. Capitalisation of the bank is adequate, with overall CAR at 16.51% as on June 30, 2022. Resource profile of Indian Bank has strengthened following its amalgamation with Allahabad Bank, with the proportion of low-cost CASA deposits at 40.73% as on June 30, 2022.
8. HDFC Bank Ltd: HDFC Bank is the largest private sector bank in India. It offers a wide range of banking services, including commercial and transactional banking in the wholesale segment, and branch banking in the retail segment, with focus on car finance, business banking loans, commercial vehicle finance, credit cards, and personal loans. The bank acquired Centurion Bank of Punjab in May 2008. It has three overseas branches, one each in Dubai, Bahrain, and Hong Kong, as well as two representative offices, one each in the United Arab Emirates and Kenya. Further, the bank also has an Offshore Banking Unit at International Financial Service Centre (IFSC), at GIFT City, Gandhinagar in Gujarat. The bank is a market leader in non-mortgage retail asset segments such as commercial vehicles and car financing. It has also been expanding its geographical reach over the past few years; and has set up new branches primarily in semi-urban and rural areas. As on March 31, 2022, the

The bank is present in the broking business via HDFC Securities Ltd, which also operates as a third-party distributor of mutual fund products, insurance, initial public offerings, fixed deposits, bonds and non-convertible debentures. HDB Financial Services Ltd is a non-deposit-taking non-banking financial company, offering loans against property, commercial vehicle and construction equipment loans, and small and medium-sized enterprises financing.

9. EXIM Bank: EXIM Bank is an entity incorporated under the Act of the Indian Parliament and owned by Government of India and acts as the principal financial institution coordinating activities of Indian institutions engaged in international trade finance. Exim provides project finance, working capital finance and short-term credit to exporters. Exim bank also extends line of credit facilities to sovereign governments, overseas financial institutions and regional development banks, to promote India's exports to trading partners. Such lines of credit have increased significantly in the recent past, increasing Exim bank's strategic importance. The standalone credit profile of EXIM bank is also supported by its strong capitalization levels. Government has consistently infused capital in Exim Bank. Also entity has demonstrated ability to raise wholesale funds at competitive rates both in domestic and international markets. Commands one of the best rates in international markets among Indian issuers given quasi-sovereign status. Further the company has raised funds in multiple currencies.
10. HDB Financial Services Ltd: Shareholding support of HDFC Bank, strong liquidity and adequate capitalization bode well for the credit profile. In addition, the strong retail centric portfolio and lower ticket size provide comfort that the portfolio risks will be largely contained. Company's liquidity and balance sheet profile has also been robust with adequate liquidity, healthy capitalization and reasonable leverage. While asset quality has seen an uptick in the recent past, it is expected that adequate capital and conservative recognition will stand positive for them over time. Overall the strength is derived from strong standalone profile, coupled with strong operational and financial linkages with HDFC bank.

*Source: HSBC Asset Management, India, (HSBC AMC), Credit issuer's corporate websites, Data as of 30 September 2022

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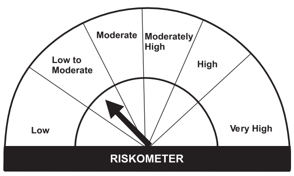
HSBC Low Duration Fund Riskometer

HSBC Low Duration Fund



Investors understand that their principal will be from Low to Moderate risk

Low Duration Fund - An open ended Low Duration Debt Scheme investing in instruments such that the Macaulay^ duration of the portfolio is between 6 months to 12 months. Please refer Page no. 9 of the SID for explanation on Macaulay duration. Relatively low interest rate risk and moderate credit risk.

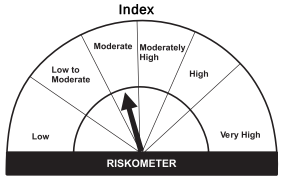
This product is suitable for investors who are seeking##:

- Liquidity over short term.
- Investment in debt and money market instruments such that the Macaulay^ duration of the portfolio is between 6 months to 12 months.

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

Please note that the above risk-o-meter is as per the product labelling of the Scheme available as on the date of this communication/ disclosure. As per SEBI circular dated October 5, 2020 on product labelling (as amended from time to time), risk-o-meter will be calculated on a monthly basis based on the risk value of the scheme portfolio based on the methodology specified by SEBI in the above stated circular. The AMC shall disclose the risk-o-meter along with portfolio disclosure for all their schemes on their respective website and on AMFI website within 10 days from the close of each month. Any change in risk-o-meter shall be communicated by way of Notice cum Addendum and by way of an e-mail or SMS to unitholders of that particular Scheme.

Benchmark: CRISIL Low Duration Fund B-I Index



Potential Risk Class (HSBC Low Duration Fund)

Credit Risk → Interest Rate Risk ↓	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
Relatively Low (Class I)		B-I	
Moderate (Class II)			
Relatively High (Class III)			

Potential Risk Class ('PRC') matrix indicates the maximum interest rate risk (measured by Macaulay Duration of the scheme) and maximum credit risk (measured by Credit Risk Value of the scheme) the fund manager can take in the scheme. PRC matrix classification is done in accordance with and subject to the methodology/guidelines prescribed by SEBI to help investors take informed decision based on the maximum interest rate risk and maximum credit risk the fund manager can take in the scheme, as depicted in the PRC matrix.

HSBC Low Duration Fund (HLDF)

Date: October 2022

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