HSBC Asset Management

HSBC Cash Fund (HCF)

An Open Ended Liquid Scheme. Relatively low interest rate risk and relatively low credit risk.

December 2021

Investment Objective:

Aims to provide reasonable returns, commensurate with low risk while providing a high level of liquidity, through a portfolio of money market and debt securities. However, there can be no assurance or guarantee that the investment objective of the scheme would be achieved.

Fund Details

Fund Manager
Kapil Punjabi

AUM (as on 30.11.21)
3128.04 Cr

Benchmark
CRISIL Liquid Fund Index [2]

Inception Date
04 December 2002

Minimum Investment

Lumpsum	SIP	Additional Purchase
Rs` 5,000	Rs` 500	Rs` 1,000

Average Maturity	0.08 year
Modified Duration	0.08 year
Macaulay Duration	0.08 year
Yield to Maturity[1]	3.51%

	Investor exit upon subscription	Exit Load as a % of redemption proceeds
Exit Load	Day 1	0.0070%
	Day 2	0.0065%
	Day 3	0.0060%
	Day 4	0.0055%
	Day 5	0.0050%
	Day 6	0.0045%
	Day 7 Onwards	0.0000%

Above Exit Load shall be applicable if switched out/redeemed within 7 Calendar Days.

Current Portfolio Strategy – Focus On High Quality Credit and Optional Liquidity

- The entire Money-market curve is centric to the overnight funding cost which is around the reverse-repo rate for now.
- However, there have been bouts of volatility in recent months as RBI has absorbed increased quantum through variable rate reverse repo (VRRR) auctions. Nevertheless, despite phased increase in variable reverse repo rate (VRRR) auction, liquidity is likely to stay ample in the near term.
- Going into 2022, we may see the prospects of liquidity reversal firming up. Therefore, while rates are expected to remain stable, some pockets of volatility cannot be wished away.
- With a focus on accrual we intend to keep a neutral duration in the cash fund.

[1] YTM Based on invested Amount

[2] 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

HSBC Asset Management

Document date : 15 December, 2021

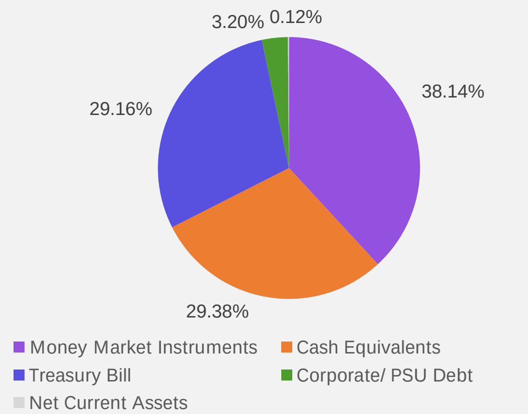
PUBLIC

Portfolio

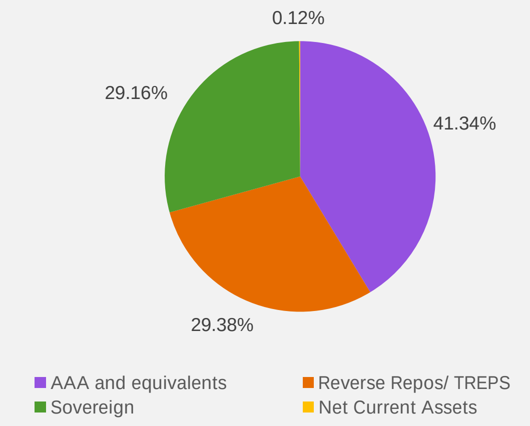
Issuer	Rating	% to Net Assets
Money Market Instruments		
Commercial Paper		38.14%
National Bk for Agriculture & Rural Dev. Top 10	[ICRA]A1+	9.54%
Reliance Industries Top 10	CRISIL A1+	4.78%
HDFC Securities Top 10	CRISIL A1+	4.77%
ICICI Securities Top 10	[ICRA]A1+	4.76%
Kotak Securities Top 10	CRISIL A1+	4.75%
NTPC	CRISIL A1+	3.19%
Aditya Birla Housing Finance	[ICRA]A1+	3.17%
Bajaj Housing Finance	CRISIL A1+	1.59%
Axis Securities	CRISIL A1+	1.59%
Corporate/ PSU Debt		
Corporate Bonds / Debentures		3.20%
Housing Development Finance Corp Top 10	CRISIL AAA	3.20%
Treasury Bill		29.16%
91 DAYS TBILL RED 02-12-2021 Top 10	SOVEREIGN	6.39%
91 DAYS TBILL RED 09-12-2021 Top 10	SOVEREIGN	6.39%
182 DAYS TBILL RED 20-01-2022 Top 10	SOVEREIGN	6.36%
182 DAYS TBILL RED 09-12-2021 Top 10	SOVEREIGN	3.19%
91 DAYS TBILL RED 20-01-2022	SOVEREIGN	3.18%
91 DAYS TBILL RED 24-02-2022	SOVEREIGN	3.17%
182 DAYS TBILL RED 23-12-2021	SOVEREIGN	0.48%
Cash Equivalent		29.50%
TREPS*		12.73%
Reverse Repos		16.65%
Net Current Assets		0.12%
Total Net Assets as on 30-Nov-2021		100.00%

*TREPS : Tri-Party Repo

Asset Allocation



Rating Profile



Ratings allocation in HCF

Currently HCF has invested ~41.34% in instruments (AAA and equivalent), while ~29.16% held in Sovereign.

Core Strategy

HSBC Mutual Funds Fixed Income investment team operate on three core pillars for HSBC Cash Fund:

1) Robust Risk Management

- Risk Management is core to the way we do business. It's our endeavor to bring the same in management of HSBC Cash Fund.
- Based on our risk norms, in HSBC Cash Fund we hold quality debt papers, apart from cash instruments. This ensures that the papers we invest in, provide adequate liquidity.
- This is critical as capital conservation is our prime focus.

2) Proactive Liquidity Measures

- To ensure optimal liquidity to suit the investor's requirements in various situations, our fund managers follow stringent liquidity norms.

3) Optimising Returns

- While keeping in mind the investors low risk appetite and liquidity requirements, our fund managers avoid taking large interest rate risks in the portfolio. All the credits are extensively screened and approved by the internal credit committee.

Fund Positioning – HSBC Cash Fund (HCF)

To ensure optimal liquidity and better risk adjusted performance to suit the investor's requirements in various situations, our fund manager follow stringent liquidity, credit risk and interest rate risk norms.

- Liquidity risk
  In a stressed liquidity scenario, the fund manager would find it difficult to sell the Commercial Papers (CPs) as they tend to become less liquid during such time. HSBC Cash Fund aims to maintains about 40% non CPs (which comprises of liquid CDs and cash). This includes cash between 5 to 10%.

- Credit risk
  The portfolio comprises of high credit quality papers. HSBC MF follows a thorough credit evaluation process and generally aims to restrict investments to minimum A1+ entities for HCF, A1+ is the highest possible short term rating.

- Interest rate risk
  HSBC MF's internal investment policy restricts the maximum portfolio weighted average maturity of HSBC Cash Fund to 60 days. This reduces interest rate risk relative to market from adverse movements in interest rates.

Investment Guidelines

HSBC Mutual Fund's (HSBC MF) investment guidelines are more stringent than regulatory prescribed guidelines and general market practices

- HCF invests predominantly in instruments rated minimum A1+ and generally does not invest more than 60% in CPs.
- Maximum exposure for non-state owned banks generally will not exceed 5% and state owned banks exposure will not exceed 10%

Parameter	HSBC Investment Guidelines**	Regulatory Investment Guidelines
Liquid Assets %^^	Minimum 20%	20% with effect from 30 June 2020
Commercial Paper (CP) Allocation %	Up to 60%	No specific limits
Ratings (Minimum)	A1+	Investment grade
State owned banks	< = 10%	10% of a scheme of any one issuer which is rated above investment grade with a cap of 12% subject to the Board approval
Non State owned Banks	< = 5%	
Single non - bank group limit	< = 5%	20% of a scheme of any one issuer group which is rated above investment grade with a cap of 25% subject to the Board approval
More than 30 days' assets (Up to 91 days) (Mark to Market – MTM)	<=70%	No specific limit

^^Liquid Assets includes Cash, Government Securities, Treasury bills and Repo on Government Securities
** Note - Investors are requested to note that the investment restrictions/guidelines referred to in this document are not part of product features of HSBC Cash Fund but are internal investment guidelines followed by HSBC Asset Management (India) Private Limited in managing investment related risks and executing various investment strategies. These internal investment guidelines can undergo changes from time to time without any intimation to the investors. <= (less than or equal to),

Rationale on existing credit exposures*

1. National Bank for Agriculture and Rural Development: Incorporated in 1982 under an Act of the Indian Parliament, NABARD is governed by the NABARD Act, 1981. NABARD shares supervisory functions with RBI in respect of co-operative banks (other than urban and primary co-operative banks) and regional rural banks (RRBs). GOI and Reserve Bank of India own 99.60 percent and 0.40 percent, respectively, of NABARD's equity share capital. The bank is the apex refinancing agency providing short- and long-term refinance to state cooperative agricultural and rural development banks, state cooperative banks, RRBs, commercial banks, and other financial institutions approved by RBI to augment credit flow for production and investment purposes in the agriculture and rural sectors.

2. Reliance Industries: The company's large size and established presence in the crude oil refining and leadership position in the domestic petrochemical industries, huge cash and liquid investments and being net cash at a consolidated level, lends a strong financial profile to the name. In addition, the entity has industry leading refining margins, comfortable gearing, low working capital intensity are some of the additional factors which give comfort on the name. Further, the company's capex cycle in-non telecom businesses is nearing its end which gives visibility on free cash flows going forward. Entity has cemented a strong Leadership position in the domestic petrochemical industry and integrated operations across E&P, refining, and petrochemical businesses. It is the industry leading margins in the refining business, healthy profitability of the petchem business which is expected to further improve going forward. It has healthy debt metrics which is expected to improve further with generation of free cash flow post completion of capex cycle. Recent stake sales in Jio, trending the company to a net debt free status is another over-riding comfort on the name. Recently announced demerger is unlikely to have a credit impact as it only strengthens the standalone profile and makes it more attractive for strategic investors in future which should enhance the company's financial standing.

3. HDFC Securities: The strength of the entity is derived from being a key subsidiary of HDFC Bank and the flagship broking entity in the group. In addition, the entity has a very strong standalone business and financial profile. The entity has a strong market share and diversified revenue streams from broking, mutual fund distribution and insurance distribution and investment banking. Furthermore, entity's long vintage is an added comfort.

4. ICICI Securities: I-Sec is subsidiary of ICICI Bank, engaged in capital markets relate businesses like broking, catering to retail and institutional clients, and investment banking. The company also offers wealth management services and distributes financial products. I-Sec is a strong player in the retail equity broking segment with a strong focus on online broking. It also has significant presence in the institutional segment with strong execution capabilities and competence in handling both cash and F&O products. The strong parentage and the shared brand name underscore importance of ICICI Securities to ICICI Bank and ensures the likelihood of receiving any support from the parent in case need arises.

5. Kotak Securities: The strength of the entity is derived from being a key subsidiary of the Kotak Bank and the broking entity in the group. In addition, the entity has a very strong standalone business and financial profile. Over the last 15 years entity has seen growth and stability which translates that entity has witnessed several business cycles. Overall, the strength of its standalone profile and the backing of the group, standout as clear positives. In addition, the company has fared well through the recent pandemic related volatility without witnessing any stress in the margin funding portfolio which emphasizes the strength of the processes of the entity.

6. HDFC Ltd: HDFC is the largest housing finance company and along with banks like SBI and ICICI Bank, dominates the housing finance market in with a significant market share in total mortgages outstanding. Capitalization levels are comfortable and remain so going forward. The funding mix of the company is comfortable with bonds and debentures accounting for more than 50% of the overall borrowings. and deposits around 1/3rd of the overall mix. HDFC has relationship with over 30 banks and has healthy access to funding from mutual funds and insurance companies. Earnings profile is very strong, supported by healthy spreads and very good asset quality maintained over the years.

7. NTPC Ltd: NTPC Ltd was incorporated in 1975. As on February 28, 2021, the company had installed power generation capacity of 64,880 MW, including capacity owned by subsidiaries and joint ventures. The total capacity includes 53,364 MW of coal-based, 6,511 MW of gas-based and 3,757 MW of hydropower plants, with the balance comprising renewable energy. NTPC is India's largest power generation company, accounting for about 17% of the overall installed capacity and 20% of the power generated. Consolidated installed capacity increased to 64.8 GW as of February 2021. With annual planned capacity addition of 4-5 GW each in the next two fiscals, the company shall retain its dominant position in the power generation sector. NTPC's thermal capacities are fully backed by long-term power purchase agreements (PPAs). These PPAs are based on the classic two-part tariff structure of Central Electricity Regulatory Commission (CERC), which ensures complete recovery of fixed expenses, including debt servicing charges. NTPC has been accorded the Maharatna status. As part of its divestment plan, GoI pared its shareholding in NTPC to 51.1% as on December 31, 2020. Nevertheless, GoI remains the majority shareholder. The government will continue to provide need-based financial support, through guarantees, for foreign currency borrowing. NTPC also remains strategically important to GoI, as it accounts for nearly a fourth of the power generated in the country.

8. Aditya Birla Housing Finance Limited (ABHFL) : ABHFL is a subsidiary of Aditya Birla Capital Limited, is housing finance company of the Aditya Birla group. It has a net worth of INR 1610 crore and lending book value at INR 113,27 crore as on September 30th, 2021. Initially incorporated in 2009 as an investment company, ABHFL commenced operations in the housing finance sector in October 2014. ABHFL is registered with the NHB as a systemically important non-deposit accepting housing finance company. ABHFL has significantly expanded its footprint to 80 branches as of 30th September 2021. ABHFL aims to enhance its focus on tie-ups with developers and builders, along with achieving the right balance of sourcing and product mix and increasing its penetration by cross selling and up-selling.The company offers a complete range of housing finance solutions such as Home loans, Home Extension Loan, Plot & Home Construction Loan, Home Improvement Loans, Loan Against Property, Construction Financing, Lease Rental Discounting, Commercial Property Purchase Loan . The entity's rating of AAA/A1+ by ICRA and India Ratings reflect the strategic importance of the business to Aditya Birla Capital Ltd and the ultimate parent, Aditya Birla Group.

9. Axis Securities Ltd (ASL) : Incorporated in 2006 as a wholly-owned subsidiary of Axis Bank, Axis Securities Limited (ASL) is engaged in retail equity broking, related lending and distribution of financial products. With effect from April 1, 2019, ASL exited the business of sourcing financial assets (housing loans, auto loans, loans against property, credit cards, etc) for Axis Bank and providing resource management services to Axis Bank. ASL is currently a trading-cum-clearing member of the BSE, the NSE, the MCX and the NCDEX. ASL is a DP of Central Depository Services Limited (CDSL). In FY2020, Axis Bank's DP business was transferred to ASL. Axis Bank (along with its nominees) holds a 100% stake in ASL. ASL is a retail-focused broking player supported by its linkages with the parent, given its position as a bank brokerage house and the shared brand name. Given the strong parentage and the shared brand name, it is expected that ASL will receive timely and adequate financial and operational support from Axis Bank, if needed. Given its position as a bank brokerage house, ASL draws the advantage of access to Axis Bank's retail clientele and branch network and enjoys economies of scale due to the sharing of resources.

10. Bajaj Housing Finance Ltd (BHFL): BHFL is the housing finance arm of BFL, which holds 100% stake in the company. In September 2015, BHFL received a certificate for the housing finance business from the National Housing Bank. The parent, BFL is a subsidiary of Bajaj Finserv Ltd, the financial services arm of the Bajaj group. Registered with the Reserve Bank of India as a systemically important, deposit-taking, non-banking finance company (NBFC-D-SI), BFL has emerged as one of the largest retail asset financing NBFCs in the country. BHFL is strategically important to BFL, as it is now the vehicle for growing the mortgage business, which is a focus area for the parent. Also, conducting the mortgage business through a housing finance company (HFC) will allow more efficient use of capital. With BFL having infused Rs 300 crore in fiscal 2017, Rs 1,200 crore in Feb 2018, Rs 2000 crores in fiscal 2019, and Rs 1,500 crore in fiscal 2020, BHFL has a sizeable networth of around Rs 5869.3 crore as on December 31, 2020.

*Source: HSBC Asset Management, India, (HSBC AMC), Credit issuer's corporate websites, Data as of 30 November 2021

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Market Update

Fixed Income Market Summary for the month of November 2021

- November saw relatively muted action in the markets as yields moved around in a narrow range for most of the month, with a slight positive bias. Early in the month, we saw cut in excise duties on fuel by central government as well as cut in value added taxes on fuel by state governments. The impact on lowering inflation from these measures is expected to be ~30 bps. While there is also likely to be a consequent fiscal impact of ~INR 450 bn on central government finances, the same is likely to be manageable given strong fiscal trends till date. During the latter half of the month, we saw concerns over Omicron variant leading to a risk-off sentiment across global markets and crude prices which were volatile through the month, fell further to ~USD 70/bl. As a result, Indian debt markets continued to trade with a positive bias.
- Overall, 10y closed November 6 bps lower at 6.33 v/s 6.39 at the end of October. 10 yr however underperformed other parts of the curve- benchmark 5 yr was lower by 12 bps closing at 5.64 at the end of November v/s 5.76 in October,14 yr was lower by 11 bps at 6.73 in November. Shorter end of the curve (1 to 3 yr) was largely flattish and the curve overall exhibited a slight bull flattening trend.
- Corporate bonds traded in a narrow range in the month, seeing a flattening of the curve as 10 yr bond yields rallied by ~10 bps, while 2-3 yr segment closed marginally higher. 10Y corporate bond spreads compressed to ~40-42 bps by the end of the month.
- RBI continued calibrating liquidity by absorbing increased quantum through VRRRs, as guided in the previous RBI monetary policy. Overall liquidity remained comfortable with outstanding at liquidity adjustment facility (LAF) averaging at INR 7.59 trn in November (v/s INR 7.48 trn in October) , though a bulk of the same is now absorbed by the RBI through 7-day, 14-day and 28-day VRRRs.

Outlook

Fiscal trends have continued to stay positive through October ʹ21 with fiscal deficit for 7 month FY22, as a proportion of budgeted estimate, the lowest in past several years, as revenue trends have continued to stay positive. High frequency indicators such as PMI continue to reflect the recovering growth impulses, and strong GST collections also reflects the same. GDP numbers released towards the end of November for Q2FY 2022, also confirm the trend of recovery in growth post the second wave.

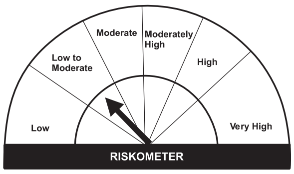
On the inflation side, sticky core inflation coupled with an uptick in food prices, especially vegetable prices should push inflation towards the higher end of the RBI 4+/-2% band in the next few months, despite the cut in fuel prices, which would have a lowering impact.

Overall, the RBI policy on December 8th will set the tone for markets going forward, as the MPC weighs the incipient growth impulses and stickiness in inflation on one hand, and possible disruption to the recovery from a third wave/new Covid variant. RBI is expected to continue to normalize monetary policy in a vary calibrated manner, while staying accommodative. Further steps towards liquidity normalization and narrowing of the reverse repo/repo rate corridor by a hike in reverse repo rates, are anticipated over monetary policy committee meetings in December and February ʻ21.

On balance, we expect range-bound situation continuing to prevail in terms of G-Sec and corporate bond yields as positives on the fiscal front are offset by elevated global inflation and global central banks starting to taper their bond buying and moderating their accommodation on the monetary front. RBI is also expected to normalize policy in a calibrated manner, however it is expected to step in to support markets to prevent any disorderly increase in yields, whenever required. Overall, the current steepness in the curve will remain. With the attractive carry in the short to medium part of the curve, we would favor this segment to other parts of the curve, both on G-Sec and corporate bond side.

HSBC Cash Fund Riskometer

HSBC Cash Fund



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

Liquid Fund - An Open Ended Liquid Scheme. Relatively low interest rate risk and relatively low credit risk.

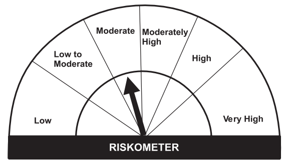
This product is suitable for investors who are seeking##:

- Overnight Liquidity over short term.
- Invests in Money Market Instruments.

##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 Liquid Fund Index



Potential Risk Class (HSBC Cash Fund)

Credit Risk → Interest Rate Risk ↓	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
Relatively Low (Class I)	AI		
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.

*TREPS : Tri-Party Repo

*Source: HSBC Asset Management, India, (HSBC AMC), Credit issuer's corporate websites, Data as of 30 November 2021

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