HSBC Asset Management

HSBC Corporate Bond Fund

An open ended debt scheme predominantly investing in AA+ and above corporate bonds. Please refer Page no. 9 of the SID for explanation on Macaulay duration. Moderate interest rate risk and relatively low credit risk.

June 2022

Investment Objective:

To seek to generate reasonable income and provide risk-adjusted returns by investing primarily in AA+ and above rated corporate debt securities. However, there can be no assurance or guarantee that the investment objective of the scheme would be achieved.

Fund Details

Fund Manager

Ritesh Jain

AUM (as on 31.05.22)

197.59 Cr

Minimum Investment

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

Average Maturity	1.81 years
Modified Duration	1.59 years
Macaulay Duration	1.69 years
Yield to Maturity [1]	6.56%

Benchmark

NIFTY Short Duration Debt Index A-II [2, 3]

Inception Date

30 September 20

Exit Load

NIL

[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. [3] Fund's benchmark has changed with effect from April 01, 2022.

Portfolio Strategy

- From medium term perspective, HSBC Corporate Bond Fund offer value for investors at current short-term yields over funding cost in terms of spread. However, near term volatility will remain as markets reprice the timing and extent of rate hikes by RBI.

- Over the medium term, the attractive carry and roll-down will present opportunities in the short to medium end of the curve. The extent of supply in G-Sec on account of increased borrowings in FY 23 is largely towards the duration segment. The steepness in the yield curve up to the 3 to 5 year points already factor in further rate hikes by RBI to a large extent and could present opportunities as RBI front-loads the rate hikes.

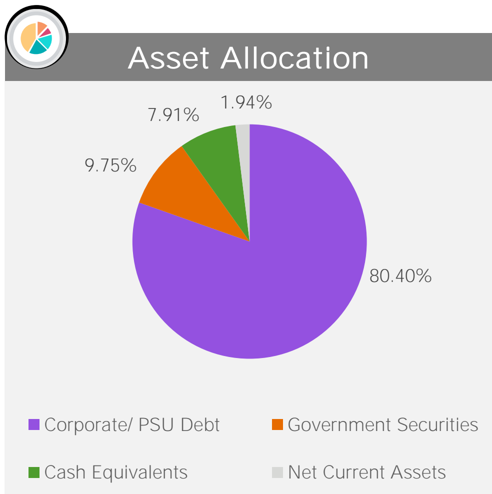
- Similarly, on the corporate side, we prefer the 18 month to 2 years' part of the curve, which offers attractive risk-return trade-off as the steepness in the curve is attractive and hence compensates to some extent in case of any adverse movement in yields at the ultra-short end of the curve. As such, we continue to be positioned with an underweight stance in terms of duration in this fund and would await better opportunities to take advantage of the steepness at the short to medium end of the yield curve.

Portfolio

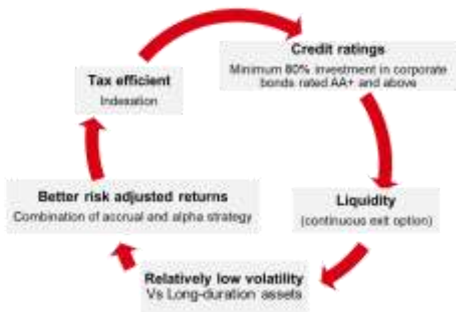
Issuer	Rating	% to Net Assets
Corporate/ PSU Debt		
Corporate Bonds / Debentures		80.40%
REC Top 10	CRISIL AAA	10.33%
Indian Railway Finance Corporation Top 10	CRISIL AAA	10.11%
Indian Oil Corporation Top 10	[ICRA]AAA	9.94%
National Bk for Agriculture & Rural Dev. Top 10	[ICRA]AAA	9.86%
Housing Development Finance Corp Top 10	CRISIL AAA	7.62%
Reliance Industries Top 10	CRISIL AAA	7.61%
National Housing Bank Top 10	CRISIL AAA	7.43%
Kotak Mahindra Prime Top 10	CRISIL AAA	7.39%
Power Finance Corporation Top 10	CRISIL AAA	5.16%
LIC Housing Finance Top 10	CRISIL AAA	4.95%
Government Securities		9.75%
5.15% GOVT OF INDIA RED 09-11-2025 Top 10	SOVEREIGN	7.17%
8.21% HARYANA SDL RED 31-03-2026	SOVEREIGN	2.58%
Cash Equivalent		
TREPS*		5.16%
Reverse Repos		2.76%
Net Current Assets		1.94%
Total Net Assets as on 31-May-2022		100.00%

*TREPS : Tri-Party Repo

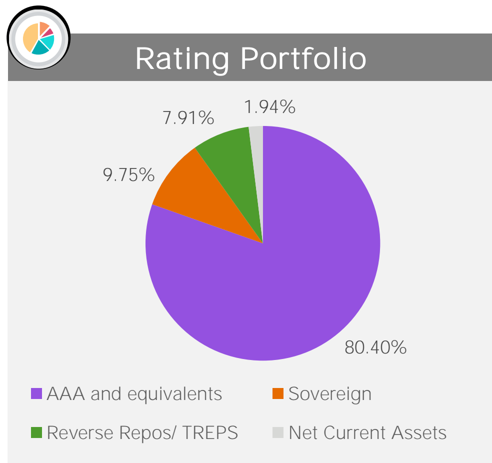
Asset Allocation



HSBC Corporate Bond Fund (HCBF) offers multiple advantages



Rating Portfolio



Ratings allocation –

HSBC Corporate Bond Fund has invested 80.40% AAA and equivalents. Reverse Repos Treps is 7.91%

HSBC Corporate Bond Fund aims for better risk adjusted performance with stability

Source – HSBC Asset Management, India, Refer to the Scheme Information Document (SID) for more details on investment guidelines
^ HSBC Corporate Bond Fund - 80% of the net assets excluding the extent of minimum stipulated liquid assets in terms of SEBI circular dated June 25, 2021.

Rationale on existing credit exposures*

1. 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.
2. Indian Railway Finance Corporation Ltd: IRFC is is wholly owned by Government of India (GoI) through Ministry of Railways (MoR). The company was set up with the objective of borrowing funds from the market to provide rolling stock to Indian Railways (IR). IRFC leases rolling stock to Indian Railways, which reimburses the company through lease rentals, paid on a half yearly basis in advance. The lease agreement between IR and IRFC is structured in such a way that IRFC's expenses are reimbursed, allowing it to earn an adequate margin. The credit profile of IRFC derives significant comfort from the support it receives from GoI and its strategic importance to IR; IRFC provides market funding to about 25% of IR's rolling stock requirements. Given the large capex requirements of IR, IRFC will continue to play a critical role in mobilizing funds for IR at competitive rates and therefore remain strategically important over long term. The company's importance to IR is further evident from the fact that it also raises market borrowings required by Rail Vikas Nigam Ltd. for execution of projects relating to upgrading railway infrastructure. The underlying risk on this exposure is borne by MoR.
3. Indian Oil Corporation Ltd: IOC is the largest oil refining and marketing company. with approx. one third refining market share. IOC also has the largest network of crude oil and petroleum product pipelines in India. In terms of oil marketing and sales, IOCL is again the leader with ~45% petroleum market share with over 42,900 touch points. IOC also meets majority of the requirement of GOI owned organizations such as the Indian Railway and defense forces. Overall, majority GOI ownership, strategic importance, robust liquidity profile and strong balance sheet are the key credit strengths.
4. 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). 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.
5. Housing Development Finance Corporation Limited: As the largest housing finance company in India, HDFC has been recording profitable growth over the past 44 years in the individual housing and corporate segments. Though entry of new players and greater focus by banks on this segment have intensified competition, HDFC has maintained its market share. As on September 30, 2021, its loan book stood at Rs 5,20,798 crore, a growth of 10% over the previous fiscal (Rs 4,75,121 crore as on September 30, 2020; Rs 4,98,298 crore as on March 31, 2021). The company also has a sizeable presence in other financial services, including life insurance, general insurance, AMC and education financing, through subsidiaries. Overall asset quality remains healthy with gross stage 3 assets (GS3) as on September 30, 2021, at 2.50% (2.34% as on March 31, 2021, 2.29% as on March 31, 2020, and 1.41% as on March 31, 2019).
6. Reliance Industries Ltd: 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.

7. National Housing Bank (NHB): NHB, a financial institution and 100% owned by government of India, carries out supervisory, refinancing, developmental role, and also play a key policy role in implementing government policy, for the housing industry. It provides long-term credit to licensed HFCs, scheduled banks, and other primary lending institutions. It is also one of the nodal agencies for the Credit Linked Subsidy Scheme (CLSS), under the GoI's flagship programme for housing, Pradhan Mantri Awas Yojana (PMAY). As on June 30, 2021, the total asset base stood at 90,954 crores. NHB reported gross non-performing assets (GNPAs) of 2.92% and nil net NPAs as on June 30, 2021, against 2.99% and 0.76%, respectively, a year earlier. The capital to risk-weighted assets ratio (CRAR) was 12.14% as on June 30, 2021, against 12.74% as on June 30, 2020 (16.01% as on June 30, 2019).

8. Kotak Mahindra Prime Limited (KMPL): KMPL is an important subsidiary for Kotak Mahindra Bank Ltd (KMBL), as it undertakes car financing business for the group and supports its product offering and revenue profile. It is an important growth engine for the Kotak group in the retail finance space, with a strong presence in the car finance sector. It has strong operational and managerial integration with KMBL. KMPL benefits from the robust retail franchise and nation-wide branch infrastructure of the parent. KMBL shares its strong technology platform and risk management practices with the company. KMPL also has board representation from KMBL. The bank is 100% shareholder of KMPL.

9. Power Finance Corporation Ltd: PFC was established in July 1986 by GOI as an institution dedicated to funding and developing the domestic power sector. PFC aims to promote balanced and integrated development of the power sector by providing finance to low-cost, efficient and reliable projects. It lends to public sector entities, state electricity boards, state governments and private sector power utilities. PFC is majority owned by GOI. Entity's asset quality issues are likely to have bottomed out. 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.

10. 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

*Source: HSBC Asset Management, India, (HSBC AMC), Credit issuer's corporate websites, Data as of 31 May 2022

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Market Update

Market Summary for the month of May 2022

The month started off with a surprise unscheduled policy meet by the RBI monetary policy committee (MPC) meeting on 4th May. MPC unanimously voted for a 40 bps increase in repo rate to 4.40% v/s 4.0% earlier (and alongside 40 bps increase in MSF (marginal standing facility) and standing deposit facility (SDF) rates). MPC also mentioned that it continued to be accommodative while "focusing on withdrawal of accommodation", similar to the wording of the statement in the previous policy in April. Apart from this, RBI also hiked cash reserve ratio (CRR) to 4.5% of net demand and time liabilities (NDTL) from 4% of NDTL. In its statement, the RBI mentioned that anchoring inflation expectations and containing second order effects, warranted resolute and calibrated steps to combat inflation.

April CPI inflation numbers came in at 7.80%, higher than even the elevated consensus expectations of ~7.5%. Core inflation inched to 6.9% v/s ~6.5% in the previous month while food inflation inched sharply to over 8%, Fiscal trends continued to stay positive; FY 22 fiscal deficit printed at 6.7% of GDP v/s 6.9% in revised estimates presented during the budget.

Later in the month, Government of India (GOI) reduced excise duty on petrol by INR 8 per ltr and diesel by INR 6 per ltr. This is likely to result in a revenue impact of ~INR 1.0 trn as per various estimates. GOI also indicated that it would spend an additional INR 1.1 trn on fertilizer subsidy.

Towards the end of the month, GDP data was released for 4Q FY 22 which was marginally better than consensus expectations. May Manufacturing and Services PMI also continued to remain strong, indicating continued recovery on the growth front.

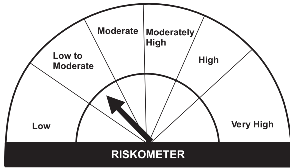
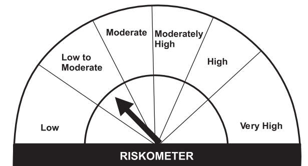
In terms of markets, we saw a sharp increase in yields immediately post the unexpected rate hike in May. The curve bear flattened with the shorter end of the curve moving up to a greater extent in yield terms relative to the 10 yr and beyond part of the curve. 10 yr yields which were at 7.13 at the end of April reacted by ~25 bps immediately post policy. Subsequently, 10 yr traded in a band of 7.20-7.50 for the rest of the month. Overall at the end of the month, 10 yr closed 28 bps higher at 7.41 as of end May v/s 7.13 at the end of April, 14 yr closed 26 bps higher at 7.58 v/s 7.32 in April, 5 yr closed 46 bps higher at 7.14 v/s 6.68 in April, while 1-3 yr segment was higher by 70-120 bps. Likewise, a similar bear flattening trend was seen on the corporate side where the 3-5 yr segment inched higher by 60-80 bps and 10 yr corporate bonds by 30-40 bps

Liquidity surplus moderated during the month, partly on account of the hike in CRR from 4% to 4.5% of NDTL. Average LAF outstanding was at INR 4.38 trn v/s INR 6.55 trn in the previous month. Liquidity continued to be absorbed primarily through 14-day VRRRs and the Standing Deposit facility

Outlook:

Given elevated commodity prices and rising food prices, Inflation is expected to stay elevated through 1H FY 23, likely beyond RBI's target range of 4% + / -2 %. As a result, RBI is expected to continue with the process of increasing interest rates over the next few months, given that the focus has shifted firmly towards combating inflation. RBI governor in his statement accompanying the May policy indicated that the interest rate hike in May could be seen as a reversal of the steps taken post Covid in 2020. Hence market expects front loading of rate hikes in upcoming policy meetings as well.

Given this backdrop and also elevated bond supply, fixed income markets are likely to trade with a negative bias over the near term. The short to medium part of the curve has already reacted sharply with yields inching upwards significantly, given expectations of front loading of rate hikes by RBI and hence could over the medium term, present some opportunities given attractive carry and roll-down.

HSBC Corporate Bond Fund Riskometer		
HSBC Corporate Bond Fund  Investors understand that their principal will be at Low to Moderate risk	Corporate Bond Fund - An open ended debt scheme predominantly investing in AA+ and above rated corporate bonds. Please refer Page no. 9 of the SID for explanation on Macaulay duration. Moderate interest rate risk and relatively low credit risk. This product is suitable for investors who are seeking##: • Income over medium term. • Investment predominantly in corporate bond securities rated AA+ and above. ##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: NIFTY Short Duration Debt A-II Index 

Potential Risk Class (HSBC Corporate Bond Fund)

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

Source: HSBC Asset Management India, Bloomberg. (HSBC AMC), Data as of 31 May 2022

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