HSBC Asset Management

HSBC Flexi Debt Fund (HFDF)

An open ended dynamic debt scheme investing across duration [1]

Relatively high interest rate risk and relatively low credit risk.

December 2021

Investment Objective:

To deliver returns in the form of interest income and capital gains, along with high liquidity, commensurate with the current view on the markets and the interest rate cycle, through active investment in debt and money market instruments. However, there can be no assurance or guarantee that the investment objective of the scheme would be achieved.

Fund Details

Fund Manager[3]
Ritesh Jain

AUM (as on 30.11.21)
55.67 Cr

Minimum Investment

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

Average Maturity	6.61 years
Modified Duration	4.70 years
Macaulay Duration	4.87 years
Yield to Maturity [2]	5.70%

Benchmark
CRISIL Composite Bond Fund Index [4]

Inception Date
05 October 2007

Exit Load
NIL

Current Portfolio Strategy

- While fiscal trends have continued to stay positive, lack of G-SAP / OMO by RBI and sticky inflation counteract the same in terms of impact on yields in the belly and longer end of the yield curve.
- Global commodity prices and bond yields have stayed volatile and response function of global central banks to emerging inflationary pressures globally would also influence the direction of yields.
- On the whole we expect the longer end to remain range bound with RBI supporting the curve in case of undue stress.
- As such, we intend to position with a neutral stance in the long bond portfolios versus the index and intend to take advantage tactically of any opportunities that may arise on the longer end of the curve depending on market conditions.

[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 said Fund is managed by Ritesh Jain effective September 01, 2020. [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

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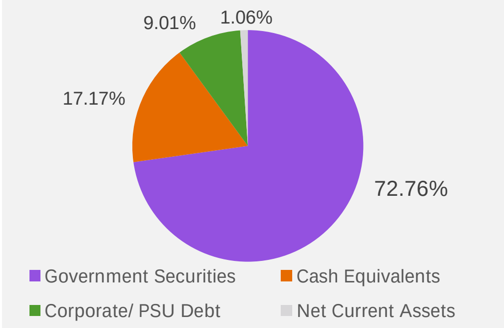
Document date : 15 December, 2021

Portfolio

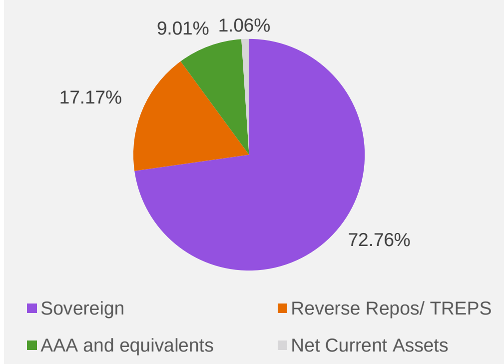
Issuer	Rating	% to Net Assets
Corporate/ PSU Debt		
Corporate Bonds / Debentures		9.01%
Indian Railway Finance Corporation	CARE AAA	9.01%
Government Securities		72.76%
6.64% GOVT OF INDIA RED 16-06-2035	SOVEREIGN	26.67%
6.79% GOVT OF INDIA RED 15-05-2027	SOVEREIGN	18.66%
5.15% GOVT OF INDIA RED 09-11-2025	SOVEREIGN	17.80%
7.72% GOVT OF INDIA RED 25-05-2025	SOVEREIGN	9.63%
Cash Equivalent		18.23%
TREPS*		7.44%
Reverse Repos		9.73%
Net Current Assets		1.06%
Total Net Assets as on 30-Nov-2021		100.00%

*TREPS : Tri-Party Repo

Asset Allocation



Rating Portfolio



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 '21 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.

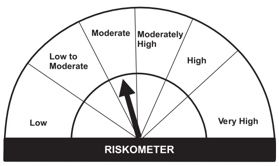
On the inflation side, sticky core inflation coupled with an uptick in food prices, especially vegetable prices should push inflation towards the higher end of the RBI 4+/-2% band in the next few months, despite the cut in fuel prices, which would have a lowering impact.

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 ‘21.

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 Flexi Debt Fund Riskometer

HSBC Flexi Debt Fund



Investors understand that their principal will be at Moderate risk

Dynamic Bond Fund - An open ended Dynamic Debt Scheme investing across duration. Relatively high interest rate risk and relatively low credit risk.

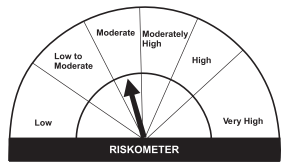
This product is suitable for investors who are seeking##:

- Regular Income over long term
- Investment in Debt / 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 Composite Bond Fund Index



Potential Risk Class (HSBC Flexi Debt Fund)

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

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 (HSBC AMC), Bloomberg. Data as of 30 November 2021

Disclaimer:

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