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] Relatively low interest rate risk and moderate credit risk.

December 2021

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.

Fund Details

Fund Manager[3]
Kapil Punjabi

AUM (as on 30.11.21)
251.88 Cr

Minimum Investment

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

Average Maturity	0.67 year
Modified Duration	0.62 year
Macaulay Duration	0.65 year
Yield to Maturity [2]	4.23%

Benchmark
CRISIL Low Duration Debt Index [4]

Inception Date
17 October 2006

Exit Load
NIL

Current Portfolio Strategy

- 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.
- The strategy in the Low Duration Fund is to maintain neutral duration eying accrual and roll-down gains taking advantage of the steepness in the curve.
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[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

^ 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

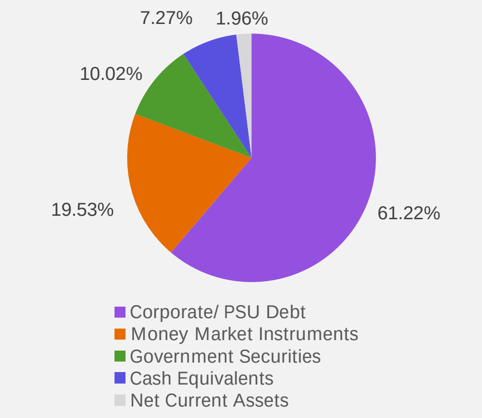
Document date : 15 December, 2021

Portfolio

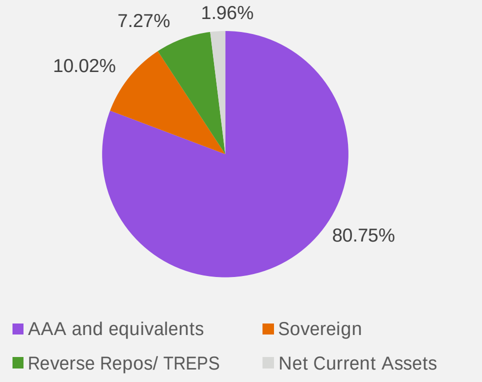
Issuer	Rating	% to Net Assets
Money Market Instruments		
Certificate of Deposit		19.53%
HDFC Bank	CRISIL A1+	9.82%
Axis Bank	CRISIL A1+	9.71%
Corporate/ PSU Debt		
Corporate Bonds / Debentures		57.04%
National Bk for Agriculture & Rural Dev.	CRISIL AAA	8.29%
Export Import Bank of India	CRISIL AAA	8.24%
Reliance Industries	CRISIL AAA	8.16%
L&T Finance	CRISIL AAA	8.04%
REC	CARE AAA	6.12%
Housing Development Finance Corp	CRISIL AAA	6.07%
HDB Financial Services	CRISIL AAA	6.07%
Bajaj Finance	CRISIL AAA	3.96%
Power Grid Corporation of India	CRISIL AAA	2.09%
Zero Coupon Bonds		4.18%
LIC Housing Finance	CRISIL AAA	4.18%
Government Securities		10.02%
8.20% GOVT OF INDIA RED 15-02-2022	SOVEREIGN	10.02%
Cash Equivalent		9.23%
TREPS*		3.15%
Reverse Repos		4.12%
Net Current Assets		1.96%
Total Net Assets as on 30-Nov-2021		100.00%

*TREPS : Tri-Party Repo

Asset Allocation



Rating Portfolio



Rationale on existing credit exposures*

1. HDFC Bank Ltd: HDFC Bank is the largest private sector banks in India with total assets of Rs 17,53,941 crore as on June 30, 2021 (Rs 17,46,871 crore as on March 31, 2021), and a share of around 9% and 10% in system deposits and advances, respectively. Advances (net) and deposits were Rs 11,47,652 crore and Rs 13,45,829 crore, respectively, as on June 30, 2021 (Rs 11,32,837 crore and Rs 13,35,060 crore, respectively, as on March 31, 2021). Retail advances constituted 46% of total domestic advances as on June 30, 2021 (47% as on March 31, 2021). The bank is a market leader in the 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; The bank has healthy capitalization, underpinned by sizeable net worth of Rs 2,12,488 crore as June 30, 2021 (Rs 2,03,721 crore as on March 31, 2021). The Tier-I capital adequacy ratio (CAR) and overall CAR (under Basel III) were 17.9% and 19.1%, respectively, as on June 30, 2021 (17.6% and 18.8%, respectively, as on March 31, 2021). The capital position was further strengthened, with the bank raising Rs 23,651 crore equity in fiscal 2019. Further, the bank raised USD 1 billion Additional tier I bonds (under Basel III) from overseas investors in August 2021. Net interest margin of the bank, at about 4.0-4.2%, has consistently remained above industry average. Given the bank's higher proportion of retail segments and cost advantages that accrue from its resource profile, interest spread is likely to remain higher than industry levels.

2. Axis Bank: It is the third-largest private sector bank with a diverse business mix as reflected in a well-spread out loan portfolio with more than half of it being granular retail. Capitalisation for Axis Bank is at healthy levels and the bank has demonstrated its ability to raise equity capital from the markets, both debt and equity side. Overall, the bank's large size, proven ability to raise capital and good resource profile are the key positive drivers for investing in the bank. In addition, large size also lends the bank its systemic importance which is an overriding comfort.

3. 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.
4. 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.
5. 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.
6. L&T Finance: L&T Finance is the flag ship NBFC of the L&T group with a diversified lending model. The key strength emerges from strategic importance to the L&T group as a whole and expected support from ultimate parent L&T. Liquidity is very strong and asset quality is mangeable. While recent past performance of the industry has been under stress, this entity has been able to manage well with strong liquidity support. While operating environment will be challenging, company seems to be faring better than many peers in the sector given its diversified book and parentage.
7. Rural Electrification Corporation: 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
8. HDB Financial Services: Shareholding support of HDFC Bank (97.3%), 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.
9. 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.
10. LIC Housing Finance: 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

11. Food Corporation of India: The bonds have a unconditional and irrevocable guarantee of Government of India. FCI is owned by Government of India and is the nodal agency for implementing GOI's food security objective. The financial strength is from guarantee of the government. The standalone entity is also dependent of government support as the primary source of revenue is government subsidy. FCI was constituted under the FCI Act 1964 in order to fulfil the following objectives of the food policy of GoI viz. Effective price support operations to safeguard the interests of the farmers, Distribution of food grains throughout the country for the Public Distribution System (PDS), Maintaining a satisfactory level of operational and buffer stocks of food grains to ensure national food security. FCI was set up to ensure an effective price support system for farmers, so that they can be paid an MSP for their produce. It is also responsible for ensuring adequate foodgrain availability through the public distribution system (PDS) and maintaining a satisfactory level of operational and buffer stocks of foodgrains. The management of FCI is vested in the board of directors appointed by the Central Government. Given the importance of the food security for the country, FCI will continue to remain strategically important to the government
12. Bajaj Finance: 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.

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

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 '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.

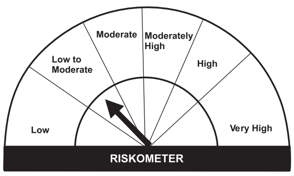
On the inflation side, sticky core inflation coupled with an uptick in food prices, especially vegetable prices should push inflation towards the higher end of the RBI 4+/-2% band in the next few months, despite the cut in fuel prices, which would have a lowering impact.

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 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. Relatively low interest rate risk and moderate credit risk. Please refer page no. 9 Scheme Information Document on Macaulay duration.

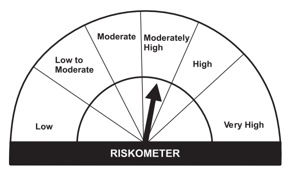
This product is suitable for investors who are seeking##:

- 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 Debt 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)		BI	
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.

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.