HSBC Overnight Fund (HDF)

Overnight fund – An open ended debt scheme investing in overnight securities.
Relatively low interest rate risk and relatively low credit risk.

December 2021

Investment Objective:

The scheme aims to offer reasonable returns commensurate with low risk and high degree of liquidity through investments in overnight securities. However, there is no assurance that the investment objective of the Scheme will be achieved.

Fund Details

Fund Manager
Kapil Punjabi

AUM (as on 30.11.21)
619.22 Cr

Minimum Investment [1]

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

Yield to Maturity [2]	3.38%

Benchmark
CRISIL Overnight Index [3]

Inception Date
22 May 2019

Exit Load
NIL

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 overnight fund invests only in overnight asset.

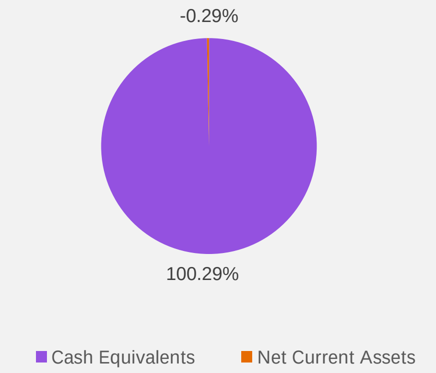
[1] in multiples of Re 1 thereafter
[2] YTM Based on invested Amount
[3] SEBI vide its circular no. SEBI/HO/IMD/IMD-II DF3/P/CIR/2021/652 dated October 27, 2021, on 'Guiding Principles for bringing uniformity in Benchmarks of Mutual Fund Schemes' has introduced two-tiered structure for benchmarking of certain categories of schemes. Accordingly, the benchmark has been classified as Tier 1 benchmark. Furthermore , the same is effective from 01 December 2021

Portfolio

Issuer	Rating	% to Net Assets
Cash Equivalent		**100.000%**
TREPS*		**83.536%**
Reverse Repos		**16.757%**
Net Current Assets		**-0.294%**
Total Net Assets as on 30-Nov-2021		**100.000%**

*TREPS : Tri-Party Repo

Asset Allocation



Benefits of Overnight Funds

Lowest volatility

Overnight funds offer relatively lower volatility compared to other fixed income funds

Lowest risk

Overnight funds carry no interest rate risk and lowest credit default risk vs other fixed income funds

High liquidity**

Overnight funds are one of the most liquid investments available in the market with redemption availability on any working day

Reasonable risk adjusted performance

Overnight funds can deliver consistent and reasonable risk adjusted performance vs traditional saving products

Core Strategy

HSBC Mutual Fund's Fixed Income investment team operate on three core pillars:

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 Overnight Fund.

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 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.

** As per the Regulations, the Overnight Fund shall dispatch the redemption proceeds within 10 Business Days from the date of acceptance of redemption request. The Fund will endeavor to dispatch the redemption proceeds in 1 Business Day from the date of receiving a valid redemption request.

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.

Who should invest in HSBC Overnight Fund (HOF)?

- Park surplus money - HOF is well suited for investors looking to park their surplus money as the fund provides reasonable return potential with high liquidity

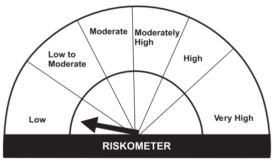
- Emergency funds - The fund is well suited for investors looking to park their emergency funds for short term such as 1 business day and earn reasonable returns with better access to funds

- High quality, high liquidity and low risk - HOF is also best suited for investors who would like to invest in a low volatile, high quality fixed income portfolio with easy redemption access

Suitable to park idle money for reasonable returns and high liquidity

HSBC Overnight Fund Riskometer

HSBC Overnight Fund



Investors understand that their principal will be at Low risk

Overnight Fund- An open ended debt scheme investing in overnight securities. Relatively low interest rate risk and relatively low credit risk.

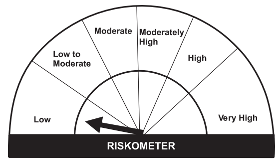
This product is suitable for investors who are seeking##:

- Income over short term and high liquidity
- Investment in debt & money market instruments with overnight maturity.

##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 Overnight Index



Potential Risk Class (HSBC Overnight 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.

Source: HSBC Asset Management, India, (HSBC AMC), Bloomberg. Data as of 30 November 2021

Disclaimer:

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