HSBC Asset Management

HSBC Short Duration Fund (HSDF)

Short Duration Fund - An open ended short term debt scheme investing in instruments such that the Macaulay duration^ of the portfolio is between 1 year to 3 years.[1] Moderate interest rate risk and moderate credit risk.

December 2021

Investment Objective:

To provide reasonable income through a diversified portfolio of fixed income securities such that the Macaulay duration of the portfolio is between 1 year to 3 years. 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)
325.40 Cr

Minimum Investment

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

Average Maturity	2.02 years
Modified Duration	1.79 years
Macaulay Duration	1.87 years
Yield to Maturity [2]	5.04%

Benchmark
CRISIL Short Term Bond Fund Index [4]

Inception Date
10 December 2002

Exit Load
NIL

Current Portfolio Strategy

- From medium term perspective, HSBC Short Duration Fund is expected to benefit from attractive carry at short and medium part of the curve. It offers value for investors at current short-term yields over funding cost in terms of spread.
- In recent months, we have witnessed some volatility in the short to medium segment. However, the short and medium part of the curve still remains attractive from carry play point of view and have to a reasonable extent, discounted RBI's calibration in liquidity
- The current steepness in the 2-3 yr segment will most likely benefit despite firming up of rates.at the ultra-short end of the curve given the steepness in the curve currently.
- We also like the short-medium part of Government securities curve as current three years point over one year and five-seven years point over one/three year offers attractive risk-return tradeoffs.
- The extent of supply in H2 from G-sec and SDL front is largely towards the 10-14yr and 30yr segments and this should keep the pressure contained in the medium part of the segment.
- Overall, the pick-up versus overnight rate is quite attractive in the short-medium segment on the G-sec curve and alongside on the corporate curve. As such we intend to maintain a neutral duration versus the index in near term.

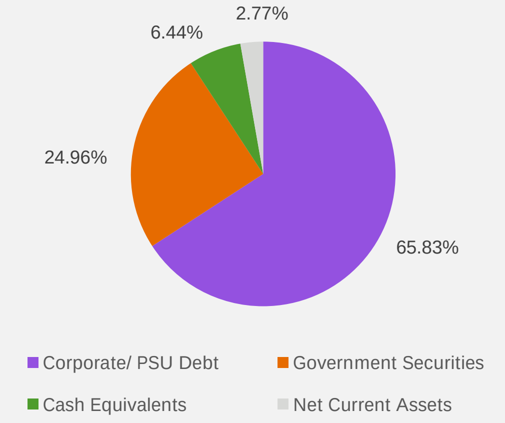
[1] Pursuant to the circular issued by SEBI on 'Categorization and Rationalization of the Schemes, there has been change in the fundamental attribute(s) of the aforesaid effective from Mar 14, 2018.
[2] YTM Based on invested Amount
[3] The said Fund is managed by Ritesh Jain effective September 01, 2020
[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
^ 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

Portfolio

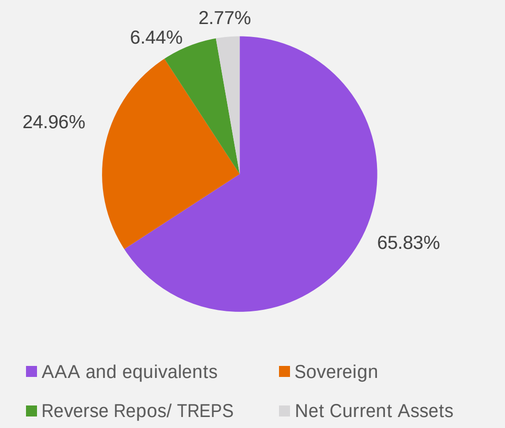
Issuer	Ratings	% to Net Assets
Corporate/ PSU Debt		
Corporate Bonds / Debentures		65.83%
Sikka Ports and Terminals Top 10	CRISIL AAA	8.07%
L&T Finance Top 10	CRISIL AAA	7.90%
Small Industries Development Bk of India Top 10	CARE AAA	7.70%
National Bk for Agriculture & Rural Dev. Top 10	[ICRA]AAA	7.68%
Export Import Bank of India Top 10	CRISIL AAA	4.82%
LIC Housing Finance Top 10	CRISIL AAA	4.66%
Kotak Mahindra Prime Top 10	CRISIL AAA	4.62%
REC Top 10	CARE AAA	3.29%
Power Finance Corporation Top 10	CRISIL AAA	3.21%
Housing & Urban Development Corp	CARE AAA	3.13%
HDB Financial Services	CRISIL AAA	3.07%
Sundaram Finance	CRISIL AAA	3.06%
Bajaj Housing Finance	CRISIL AAA	3.05%
Housing Development Finance Corp	CRISIL AAA	1.57%
Government Securities		24.96%
5.22% GOVT OF INDIA RED 15-06-2025 Top 10	SOVEREIGN	12.25%
6.18% GOVT OF INDIA RED 04-11-2024	SOVEREIGN	3.16%
8.5% JAMMU & KASHMIR SDL RED 30-03-2025	SOVEREIGN	1.66%
8.58% GUJARAT SDL RED 23-01-2023	SOVEREIGN	1.60%
8.59% ANDHRA PRADESH SDL RED 23-01-2023	SOVEREIGN	1.60%
8.6% MADHYA PRADESH SDL RED 23-01-2023	SOVEREIGN	1.60%
8.65% UTTAR PRADESH SDL 10-03-2024	SOVEREIGN	1.32%
8.66% WEST BENGAL SDL RED 20-03-2023	SOVEREIGN	1.13%
8.73% UTTAR PRADESH SDL 31-12-2022	SOVEREIGN	0.64%
Cash Equivalent		9.21%
TREPS*		2.79%
Reverse Repos		3.65%
Net Current Assets		2.77%
Total Net Assets as on 30-Nov-2021		100.00%

*TREPS : Tri-Party Repo

Asset Allocation



Rating Portfolio



Rationale on existing credit exposures*

1. Sikka Ports and Terminals Ltd: Sikka Ports and Terminals Limited (SPTL) is classified as an "Associate Company" of Reliance Industries Limited. It is owned 100% by Reliance Industries Holdings Private Limited (RIHPL). RIHPL is a holding company which is the private investment vehicle for holding several RIL group assets within the Reliance Industries – group companies.SPTL operates as a captive port and provides port infrastructure facilities to enable imports (mainly of crude oil) and exports (refinery and petrochemical products) of RIL. The operations of the company are critical for RIL as they are closely integrated with the facilities of its refining and petrochemical segments. Being the major handler of RIL's refining/petrochemical volumes, the entity remains strategically important to the RIL group. Apart from the above operations, SPTL is also engaged in operating and hiring construction equipment and machinery, and is a co-developer of Jamnagar special economic zone (SEZ). For the purpose of handling crude oil and petroleum and petrochemical products of RIL, SPTL has entered into long term throughput agreements with RIL for the two refineries at Jamnagar thus providing long term revenue visibility and stable cash flows to the company. The assured revenue stream and timely receipt of receivables from the strong counterparty enables SPTL to honor its debt commitments in timely manner.Strong parentage derived from Reliance Industries group shareholding and strategic importance to Reliance Industries handling the ports and logistics operations is a strong positive. In addition, company has a strong cash flow generation.

2. 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.

PUBLIC

3. Small Industries Development Bank of India: Small Industries Development Bank of India (SIDBI), set up on April 2, 1990 under an Act of Indian Parliament, is the principal financial institution for the promotion, financing and development of the micro, small and medium Enterprise (MSME) sector in India. SIDBI provides finance in two forms viz. indirect finance by way of long term loans, working capital facilities, discounting/rediscounting bills of exchange and refinance to Primary Lending Institutions and Micro Finance Institutions. SIDBI is also among the top 30 Development Banks of the World. SIDBI has 3 subsidiaries: SIDBI Venture Capital, SIDBI trustee Co and the newly created MUDRA. Following an amendment to the SIDBI Act in 2000, the equity held by IDBI was transferred to various PSU banks, government-owned insurance companies and financial institutions. It is held 72.8% by PSU banks, 21.9% by insurance companies and 5.3% by financial institutions. Out of 15 directors, 8 are appointed/ nominated by Central Government which includes 2 whole time directors, 2 government officials and three expertsSIDBI is the nodal agency for government schemes targeted towards the MSME sector and in the past SIDBI has received budgetary support, support from RBI and GOI guarantee of foreign government borrowing suggesting implicit GOI support.

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). 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.

5. EXIM: 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.

6. 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

7. Kotak Mahindra Prime Limited: Company is a subsidiary of Kotak Mahindra Bank and has strong financial profile, robust asset quality and very strong governance. Liquidity and access to funding remains strong. Company has always maintained a robust credit appraisal system, resulting in a well-managed asset quality, strong capitalization and reasonable profitability. Liquidity profile is strong access to financial markets is also well entrenched. Having a strong asset quality prior to the pandemic and very strong focus on underwriting high quality assets is less likely to pressure asset quality post moratorium. Overall, strong parentage, shared brand name, underscores the importance of the entity to the group stands out as the over-riding comfort on the name.

8. 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.

9. Power Finance Corporation: 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. Housing & Urban Development Corporation (HUDCO): HUDCO's strong credit profile stems from Government of India holding 90% stake and the entity being a nodal agency for implementation of government policy on social housing and urban infrastructure. Given that these two elements have been one of the key sectors in which there is strong policy thrust over long term, importance of this entity is continued to remain. Furthermore, balance sheet strength is strong and earnings profile is reasonable to absorb any shocks. Lending is largely to housing and urban infra through State Governments and agencies which primarily include state housing boards, rural housing boards, slum clearance boards, development authorities, Municipal Corporations, joint ventures and private sector agencies. Overall, given that HUDCO plays a plays a nodal and catalytic role in the implementation of government policy in the high-priority housing and urban development sectors credit comfort on the entity is very strong.

*Source: HSBC Asset Management, India, 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.

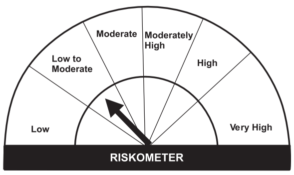
On the inflation side, sticky core inflation coupled with an uptick in food prices, especially vegetable prices should push inflation towards the higher end of the RBI 4+/-2% band in the next few months, despite the cut in fuel prices, which would have a lowering impact.

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 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 Short Duration Fund Riskometer

HSBC Short Duration Fund



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

Short Duration Fund - An open ended Short Term Debt Scheme investing in instruments such that the Macaulay ^duration of the portfolio is between 1 year to 3 years. Moderate interest rate risk and moderate credit risk. Please refer page no. 9 Scheme Information Document on Macaulay duration.

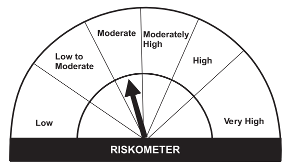
This product is suitable for investors who are seeking##:

- Regular Income over Medium term.
- Investment in diversified portfolio of fixed income securities such that the Macaulay^ duration of the portfolio is between 1 year to 3 years.

##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 Short Term Bond Index



Potential Risk Class (HSBC Short Duration Fund)

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