HSBC Asset Management

HSBC Ultra Short Duration Fund (HUSDF)

Ultra Short Duration Fund – An open ended ultra-short term debt scheme investing in instruments such that the Macaulay Duration^ of the portfolio is between 3 months to 6 months. Please refer Page no. 9 of the SID for explanation on Macaulay duration. Relatively low interest rate risk and relatively low credit risk.

April 2022

Investment Objective:

The investment objective of the scheme is to provide liquidity and generate reasonable returns with low volatility through investment in a portfolio comprising of debt & money market instruments. However, there is no assurance that the investment objective of the scheme will be achieved.

Fund Details

Fund Manager
Kapil Punjabi

AUM (as on 31.03.22)
1540.60 Cr

Minimum Investment

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

Average Maturity	0.58 year
Modified Duration	0.58 year
Macaulay Duration	0.58 year
Yield to Maturity [1]	4.52%

Benchmark
CRISIL Ultra Short Term Debt Index[2]

Inception Date
29 January 2020

Exit Load
NIL

Current Portfolio Strategy

- HSBC Ultra Short Duration Fund is focused on different segments of money market curve.
- The entire Money-market curve is centric to the overnight funding cost.
- The overnight funding cost should move above the SDF rate of 3.75% going forward.
- There could be bouts of volatility as RBI continues the process of liquidity normalization; however, the steepness in the curve remains from the overnight rate to the 1-2 yr segment, offering attractive opportunity in terms of carry and roll-down.
- The strategy in the Ultra Short duration is also to maintain neutral duration eying accrual.

[1] YTM Based on invested Amount ^ 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 Scheme Document on which the concept of Macaulay's Duration has been explained

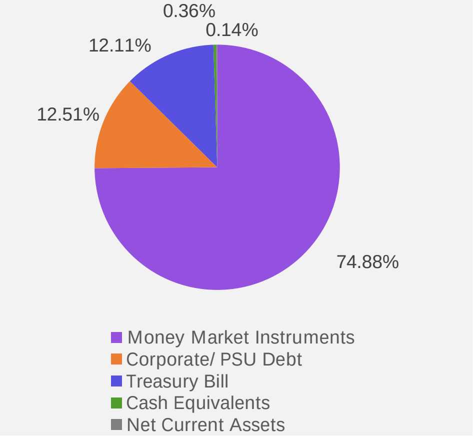
[2] SEBI vide its circular no. SEBI/HO/IMD/IMD-II DF3/P/CIR/2021/652 dated October 27, 2021, on 'Guiding Principles for bringing uniformity in Benchmarks of Mutual Fund Schemes' has introduced two-tiered structure for benchmarking of certain categories of schemes. Accordingly, the benchmark has been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

Portfolio

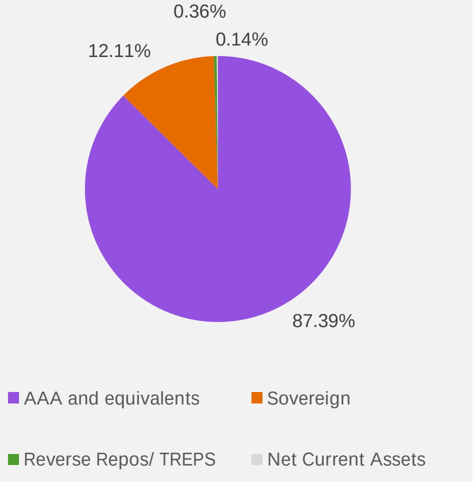
Issuer	Ratings	% to Net Assets
Money Market Instruments		
Certificate of Deposit		49.24%
Axis Bank Top 10	CRISIL A1+	9.46%
Bank of Baroda Top 10	FITCH A1+	9.36%
HDFC Bank Top 10	CARE A1+	8.44%
Canara Bank Top 10	CRISIL A1+	6.39%
National Bk for Agriculture & Rural Dev. Top 10	CRISIL A1+	6.25%
Small Industries Development Bk of India Top 10	CRISIL A1+	9.34%
Commercial Paper		25.64%
ICICI Securities Top 10	[ICRA]A1+	9.65%
Kotak Securities Top 10	CRISIL A1+	9.60%
Tata Capital Housing Finance	CRISIL A1+	3.21%
L&T Finance	[ICRA]A1+	3.18%
Corporate/ PSU Debt		
Corporate Bonds / Debentures		12.51%
LIC Housing Finance Top 10	CRISIL AAA	9.23%
National Bk for Agriculture & Rural Dev.	CRISIL AAA	3.28%
Treasury Bill		12.11%
182 DAYS TBILL RED 01-09-2022 Top 10	SOVEREIGN	5.74%
182 DAYS TBILL RED 08-09-2022	SOVEREIGN	3.19%
182 DAYS TBILL RED 15-09-2022	SOVEREIGN	3.18%
Cash Equivalent		0.50%
TREPS*		0.36%
Net Current Assets:		0.14%
Total Net Assets as on 31-Mar-2022		100.00%

*TREPS : Tri-Party Repo

Asset Allocation



Rating Portfolio



HSBC Ultra Short Duration Fund has invested ~87.39% in AAA and Equivalents. while ~12.11% held in Sovereign.

Rationale on existing credit exposures*

1. ICICI Securities Ltd: I-Sec is subsidiary of ICICI Bank, engaged in capital markets relate businesses like broking, catering to retail and institutional clients, and investment banking. The company also offers wealth management services and distributes financial products. I-Sec is a strong player in the retail equity broking segment with a strong focus on online broking. It also has significant presence in the institutional segment with strong execution capabilities and competence in handling both cash and F&O products. The strong parentage and the shared brand name underscore importance of ICICI Securities to ICICI Bank and ensures the likelihood of receiving any support from the parent in case need arises

2. Kotak Securities Ltd: The strength of the entity is derived from being a key subsidiary of the Kotak Bank and the broking entity in the group. In addition, the entity has a very strong standalone business and financial profile. Over the last 15 years' entity has seen growth and stability which translates that entity has witnessed several business cycles. Overall, the strength of its standalone profile and the backing of the group, standout as clear positives. In addition, the company has fared well through the recent pandemic related volatility without witnessing any stress in the margin funding portfolio which emphasizes the strength of the processes of the entity.

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). 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. Axis Bank Ltd: 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.

5. Bank of Baroda: Bank of Baroda is among India's five largest banks by asset size with total assets of Rs 11,97,053 crore as on December 31, 2021 (Rs 11,55,365 crore as on March 31, 2021). On the deposits front too, the bank has maintained a substantial share with Rs 9,78,034 crores of deposits as of December 31, 2021. As on December 31, 2021, the bank's gross advances stood at Rs 7,71,994 crore, up 3.6% Y-o-Y, of which 85% were domestic while the remaining 15% were international loans. On the asset quality front, the bank reported an improvement in its Gross non-performing assets (GNPA) to 7.25% as on December 31, 2021 from 8.11% as on September 30, 2021 despite the challenging environment.

6. 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. is jointly owned by SBI (largest shareholder with a stake of 16.73% as on December 31, 2021), the GoI (15.40%), LIC (14.25%) and other PSBs (the balance). . SIDBI 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.

7. 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

8. 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.

9. Canara Bank: Canara Bank is one of India's larger PSBs, with total advances and deposits of Rs 7.29 lakh crore and Rs 10.43 lakh crore, respectively, as on December 31, 2021. The merger of Syndicate Bank has also strengthened the market position of the bank. It has a pan-India branch presence, with around 9,773 domestic branches and 10,832 automated teller machines (ATMs) across the country on the same date. It also has overseas branches at four locations. Revenue is diversified across businesses, products and geographies, augmenting the strong overall market position. The bank has a strong franchise in the large and mid-size corporate banking segments. Besides banking, it undertakes factoring, asset management, insurance and retail and institutional broking services through its subsidiaries and associates. The asset quality of the bank, with gross non-performing assets (NPAs) of 7.80% as on December 31, 2021 (8.42% as on September 30, 2021) remains modest, albeit with an improving trend.

10. Tata Capital Housing Finance Ltd: Tata Capital Housing Finance Limited (TCHFL) is a 100% subsidiary of Tata Capital Limited (TCL) and was incorporated for providing long-term housing finance. The company's incorporation was an integral part of TCL's plan to augment its existing product pipeline in the retail segment. TCHFL is registered with the National Housing Bank as a housing finance company. The company commenced its lending operations in July 2009 and had a total portfolio of ~Rs. 26,481 crore as on September 30, 2021. TCHFL's asset quality remains comfortable on account of controlled slippages and high provision cover. TCHFL enjoys good financial flexibility, being a part of the Tata Group, with access to funds at competitive rates of interest. Its funding profile is fairly diversified with a mix of non-convertible debentures, bank borrowings, and commercial paper.

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

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Market Update

Market Summary for the month of March 2022

The markets traded with a negative bias during the month as geopolitical tensions and the resultant rise in commodity prices along with a sharp increase in global bond yields, given hawkishness of Federal Reserve and inflation concerns in developed economies, weighed on markets. However, there was some buying coming in at higher levels and markets partly recovered in the second half of the month.

In terms of macros, February CPI inflation numbers came in higher than expected. Overall with the fuel price pass-through starting in the month of March and continuing in April, it is expected that inflation will remain elevated and could go further higher in March and April before easing from May as base effects turn favorable from there on. Fiscal trends continued to stay positive; GST collections clocked an all-time high in the month of March; however, with the IPO of the government owned LIC being deferred on account of volatile market conditions, divestments were lower than anticipated in FY 22.

H1 FY 23 borrowing calendar was released in early April which was on expected lines. H1 FY 23 borrowing of INR 8.45 trn of total expected borrowings of IRN 14.31 trn constituted ~59% of the full year expected borrowings, in line with historical trends. In terms of issuance buckets, the 7-year issuance bucket was reintroduced, and bulk of the borrowings remains in the belly of the curve.

Overall, 10y closed February 7 bps higher at 6.84 at the end of March v/s 6.77 at the end of February. 5 yr segment outperformed and was lower by 3 bps closing at 6.02 at end of March v/s 6.05 at end of February,14 yr segment closed 1 bps higher at 7.13 v/s 7.12 at the end of the previous month

With limited supply in corporate bonds and statutory demand remaining strong, spreads in corporate bonds remained tight across segments, with spreads in the 10 yr space compressing even further during the month to very tight levels of less than 15 bps.

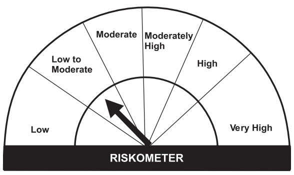
In terms of liquidity management, RBI continued to conduct VRRRs of 3 day, 7 day, 14 day and 28 day maturities. RBI also conducted USD sell buy swap of USD 5 bn in early March and announced another sell-buy swap of USD 5 bn to be conducted in the month of April, with a view to extend the maturity of its dollar forward book.

Outlook:

The RBI monetary policy committee unanimously decided to keep repo rate unchanged while calibrating the policy stance to “remaining accommodative while at the same time focusing on withdrawal of accommodation”. Although RBI has kept rates unchanged, the introduction of SDF rates and re-wording of the policy stance indicate a move towards withdrawing the accommodation provided during the pandemic in a calibrated manner. The focus has now moved towards inflation. Geopolitical developments and rate increases by global central banks will also weigh on markets in the coming months. With bond supply starting in the month of April, and H1 borrowings remaining heavy, the ability of markets to absorb the same remains to be seen and markets will watch for any supportive actions by RBI. Fiscal trends in the new fiscal and any progress on the LIC IPO, which would help divestment revenues are some of the other factors to watch out for. Overall yields are expected to trade with a negative bias, inching towards the 7% mark.

HSBC Ultra Short Duration Fund Riskometer

HSBC Ultra Short Duration Fund



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

Ultra Short Duration Fund - An Open ended Ultra-Short term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 3 months to 6 months. Please refer Page no. 9 of the SID for explanation on Macaulay duration. Relatively low interest rate risk and relatively low credit risk.

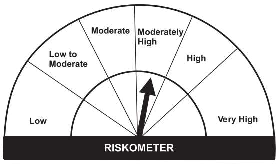
This product is suitable for investors who are seeking##:

- Income over short term with Low volatility.
- Investment in debt & money market instruments such that the Macaulay Duration of the portfolio is between 3 months - 6 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 Ultra Short Term Debt Index



Potential Risk Class (HSBC Ultra Short Duration Fund)

Credit Risk → / Interest Rate Risk ↓	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
Relatively Low (Class I)	A-I		
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, Credit issuer's corporate websites, Data as of 31 March 2022

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