# One Fund Multiple Benefits

## HSBC CRISIL IBX 50:50 Gilt Plus SDL Apr 2028 Index Fund

An open-ended Target Maturity Index Fund tracking CRISIL IBX 50:50 Gilt Plus SDL Index – April 2028. Relatively high interest rate risk and relatively low credit risk.

**NFO Date**: 15 March 2022 – 28 March 2022
**Reopening Date**: 4 April 2022

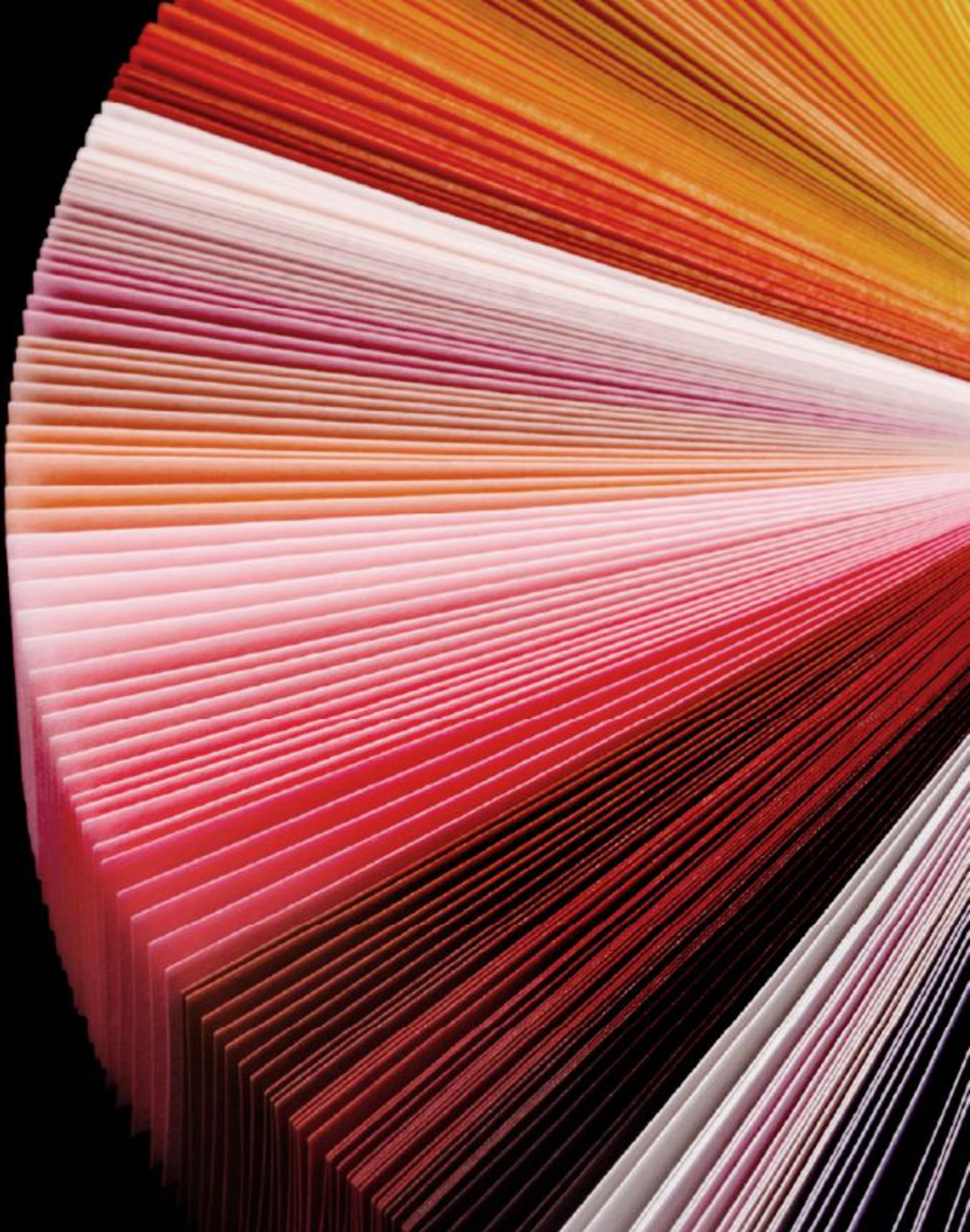
HSBC
Asset Management

**NFO Deck**

10 March 2022

# Target Maturity Index Funds

Benefit from the target goal in volatile times



# Target Maturity Index Funds

## Funds that aim for better risk adjusted performance

- Target Maturity Index Funds (TMIF) are open-ended debt funds which track predefined fixed income index
- These funds have a fixed maturity and the potential to generate better risk adjusted performance
- TMIF follows predefined index having securities maturing on or before the maturity date of the index

| 1 | 2 | 3 | 4 |
|---|---|---|---|
| • TMIF portfolio **aims to replicate predefined index and designed to end (mature) at a predefined date** | • The index typically has a **mix of quality debt papers** like SDL (State Development Loans) and Gilts (Government Securities) | • FM buy securities (represented by index) whose maturities are **close to the defined maturity date of the index and aims hold them to maturity** | • **Fund is managed passively** by tracking performance of the benchmark index (subject to tracking errors) |

**Funds with fixed maturity and the potential to generate better risk adjusted performance**

Source: HSBC Asset Management India

# Why consider Target Maturity Index Funds with six year segment now?

## Funds focus on SCPL

### Steepness

- The fund focuses on rich steepness of the curve vs shorter end. e.g. Yield pickup between 3 to 6 year (Target Maturity) is ~80 bps vs only ~30 bps in 6 - 10 year.
- SDL at present offers ~25-35 bps over G-Sec and spreads higher than corporate bonds.
- Currently, 6-year segment remains a sweet spot for investments as the steepness of this segment over 1 - 3 year segment is high. It is also less volatile than 10 years and above segment.
- Given the steepness of the curve, the 6 year segment is expected to perform better over a 3 - 4 years period as the roll down will compensate for any rise in the yield curve and therefore this segment is likely to see much lower impact on returns from a rise in interest rates v/s long term bonds (10 years+ bonds) and short term segment (3 years).

### Capital gains

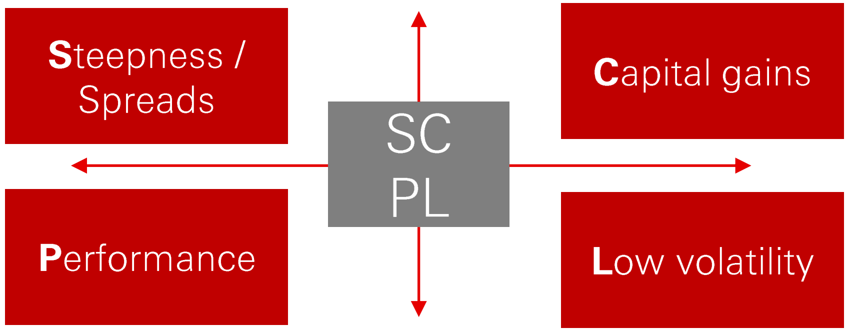
- The roll down strategy (buy and hold till maturity) can result into capital gains[1].
- There is demand from funds for 3 - 4 year maturing securities in G-Sec/SDL and also from banks to match ALM requirements.
- 6 year securities therefore offer scope for roll down benefits and capital gains over holding period.

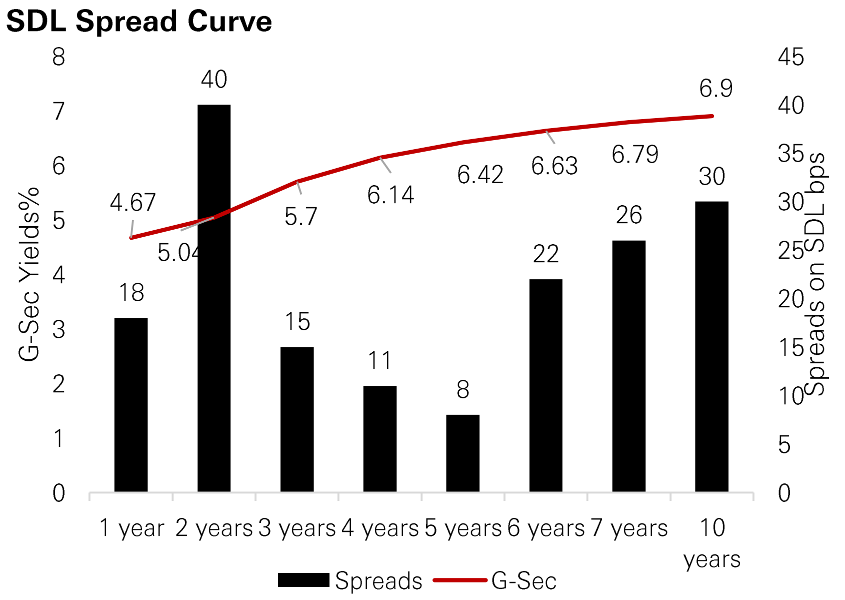
### Performance

- Hold to maturity with indexation benefit may offer better return profile vs bank deposits.
- The fund offers tax benefits with 7 indexations.

### Low Volatility

- Volatile and less lucrative outlook on securities with maturities beyond 2030, while 6-year segment offers relatively better yields.
- Elevated commodity prices and high gross borrowings in FY23 are headwinds for long-end bonds.




**Volatile & less lucrative outlook on long term securities makes the six year target maturity segment attractive**

Source: HSBC Asset Management, Bloomberg, Data as at 28 February '22, **1.** Refer to the Roll down strategy explained on slide19. Past performance may or may not be sustained in the future.

# Benefits of Investing in Target Maturity Index Funds (TMIF)

One fund multiple benefits (TMIF – Gsec + SDL)

**Diversity**
- TMIF serves as an alternative to Fixed Deposits offered by banks

**Opportunity**
- In the current scenario interest rates on the deposits are relatively low

**Better yields**
- Offers relatively better yielding investments by taking advantage of spread assets

**Liquidity**
- Offers liquidity with investments in G-Sec and SDL and redemption feature with open ended nature

**Quality & Safety**
- Relatively low credit risk due to investment in G-Sec & SDL with ratings equivalent to sovereign papers

**Reducing risk**
- Duration risk keeps reducing with defined maturity date
- Negates duration risk as one remain invested through the life of the fund

**Roll down**
- Buy to hold investment strategy (roll down maturity product)

**Roll down maturity feature help achieve better risk adjusted performance**

Source: HSBC Asset Management India, Refer to the Roll down strategy explained on slide19

# The Right Opportunity



Find the right opportunity to meet your financial goals

| | Target Maturity Index Funds | Active Debt Funds | Bond | FMPs |
|---|---|---|---|---|
| **Return Trajectory[1]** | Yes | No | Yes | Yes |
| **Liquidity** | Yes | Yes | No[2] | No[5] |
| **Diversification** | Yes | Yes | No | Yes |
| **Professional Management** | Yes | Yes | No | Yes |
| **Defined Maturity** | Yes | No | Yes | Yes |
| **Tax Efficiency** | Yes[3] | Yes[3] | Yes[4] | Yes[3] |

**Target Maturity Index Funds provide multiple benefits**

Source: HSBC Asset Management, Past performance may or may not be sustained in the future.
1. At Maturity, 2. Bond liquidity may vary due to dynamics of the debt markets, 3. Indexation available for LTCG, 4. Indexation available for LTCG in select bonds 5. Listed on exchanges but liquidity may vary
Investors should consult financial advisors for ideal portfolio allocation and suitability of funds which may be based on the risk profile of the investor

# Funds with Power of Indexation



Illustration on Indexation

| | Traditional Savings Scheme | Debt Index Fund (e.g. TMIF) |
|---|---|---|
| Investment (Rs.) | 100000 | 100000 |
| Rate of Return (%) (assumed) [1, 2] | 5.50% | 6.60% |
| Maturity Returns + Investment (Rs.) | 138,533 | 147563 |
| Maturity Returns + Investment (Post expenses) (Rs.) | | 144224 |
| Calculation: | | |
| Indexation | No | Yes |
| Indexed Value | N/A | 140710 |
| Taxable Income (Rs.) [3] | 38,533 | 3514 |
| Tax Payable (Rs.) | 11,560 | 703 |
| Post Tax & Post Expenses Gain (Rs.) | 26,973 | 43521 |
| Maturity Returns + Investment : Post Tax + Indexation - Expenses (Rs.) | 126,973 | 143521 |
| Effective Final Post tax and expenses Return (CAGR%) | 4.00% | 6.11% |

**The fund will offer investors 7 indexations[1] during its lifetime.**

**Target Maturity Index Funds provide tax benefit**

The above calculations are only for illustration purposes only. Source: HSBC Asset Management, Data as on 28 February 2022. **1.** assuming investments are made on or before 31 March 2022 and held beyond 1 April 2028. For Debt Index Fund (e.g. TMIF) - current 6 year benchmark Gsec (7.17 GS 2028) is used **2.** Prevailing SBI 5 year fixed deposit rate used in case of Traditional Savings Scheme option. **3.** Tax Rate considered 30% exclusive of applicable surcharges & cess in case of Traditional Savings Scheme. Debt Index Fund - Tax as per LTCG income tax provisions exclusive of applicable surcharges & cess., Expenses Assumed at 0.40% per anum only in case of TMIF, This computation is for resident individual investors. Cost inflation index assumed at 5%p.a. These are not to be considered for investment advice or guarantee of returns. Investors are advised to consult their Financial Advisor. Past performance may or may not be sustained in the future.

# One Fund Multiple Benefits

## HSBC CRISIL IBX 50:50 Gilt Plus SDL Apr 2028 Index Fund

An open-ended Target Maturity Index Fund tracking CRISIL IBX 50:50 Gilt Plus SDL Index – April 2028. Relatively high interest rate risk and relatively low credit risk.

| Scheme Name | Scheme Risk-o-meter | Benchmark Risk-o-meter |
|---|---|---|
| **HSBC CRISIL IBX 50:50 Gilt Plus SDL Apr 2028 Index Fund**<br>**(An open-ended Target Maturity Index Fund tracking CRISIL IBX 50:50 Gilt Plus SDL Index – April 2028. Relatively high interest rate risk and relatively low credit risk)**<br>**This product is suitable for investors who are seeking*:**<br>▶ Income over target maturity period<br>▶ Investment in constituents similar to the composition of CRISIL IBX 50:50 Gilt Plus SDL Index – April 2028 | <br>**Investors understand that their principal will be at Moderate risk** | **Scheme Benchmark:**<br>**CRISIL IBX 50:50 Gilt Plus SDL Index – April 2028**<br> |

* Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

| Potential Risk Class | | | |
|---|---|---|---|
| **Credit Risk →** | **Relatively Low (Class A)** | **Moderate (Class B)** | **Relatively High (Class C)** |
| **Interest Rate Risk ↓** | | | |
| Relatively Low (Class I) | | | |
| Moderate (Class II) | | | |
| Relatively High (Class III) | **AIII** | | |
| A Scheme with Relatively High interest rate risk and Relatively Low credit risk | | | |

Product labelling assigned during the NFO is based on internal assessment of the scheme characteristics or model portfolio and the same may vary post NFO when the actual investments are made.

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.

# Triple benefit of Target Maturity Index Fund



HSBC CRISIL IBX 50:50 Gilt Plus SDL Apr 2028 Index Fund (HGSF)[1]

**Performance**

Offers relatively better yielding investments with buy - hold investment strategy, indexation benefit and no load

+

**Safety**

Offers safety with relatively low credit risk by investments in G-Sec and SDL

+

**Liquidity**

Offers liquidity with investment in G-Sec and SDL and being open ended fund it offers regular liquidity to investor

=

**HSBC CRISIL IBX 50:50 Gilt Plus SDL Apr 2028 Index Fund**

The fund with a mix of quality debt papers and number of features offer better risk adjusted performance and liquidity

**HGSF backed by safety, liquidity and tax benefit offers better risk adjusted performance**

Source – HSBC Asset Management India, For illustration purpose only.,

1. An open-ended Target Maturity Index Fund tracking CRISIL IBX 50:50 Gilt Plus SDL Index – April 2028. Relatively high interest rate risk and relatively low credit risk.

# HSBC CRISIL IBX 50:50 Gilt Plus SDL Apr 2028 Index Fund (HGSF)[1]

Gain from buy and hold strategy

## Why invest in HGSF?

- The fund will invest in the constituents of CRISIL IBX 50:50 Gilt Plus SDL Index – April 2028. Invests in 50:50 proportion of quality G-Sec and SDL papers
- A roll down fund strategy to take benefits of better yields
- Steepness – The fund focuses on rich steepness of the curve vs shorter end. Currently, 6-year segment remains a sweet spot for investments as the steepness of this segment over 1 - 3 year segment is high. It is also less volatile than 10 years and above segment
- Capital gains - The roll down strategy (buy and hold till maturity) can result in to capital gains [2]
- Performance - Hold to maturity with indexation benefit may offer better return profile vs bank deposits. The fund offers tax benefits with 7 indexations
- Low Volatility - Volatile and less lucrative outlook on securities with maturities beyond 2030, while 6-year segment offers relatively better yields
- Regular liquidity with open ended nature of the fund and no exit load

## Why SDL?

- Credit Risk Similar to G sec
- Liquid instruments which trade above the G-Sec Curve
- Potential to deliver Market linked Returns
- Relative steepness in SDL yield curve at ~5-6 year end
- The spreads for 6 years appear attractive

## Why G-Sec?

- Gsecs issued by the government, safest investment option
- G-sec yields are currently better than FDs
- G-Sec segment offers better management of cash flows with better liquidity leading to lower impact cost

**The spreads of 6 years segment appears attractive where HGSF aims to invest**

Source: Bloomberg, HSBC Asset Management, Past performance may or may not be sustained in the future., Data as at 28 February '22
1. An open-ended Target Maturity Index Fund tracking CRISIL IBX 50:50 Gilt Plus SDL Index – April 2028. Relatively high interest rate risk and relatively low credit risk. 2. Refer to the Roll down strategy explained on slide19

# Tapping the quality opportunity the passive way



About the Index – CRISIL IBX 50:50 Gilt Plus SDL Index – April 2028 & Security Selection Methodology – G-Sec

## Index objective

- Seeks to track the performance of G-sec and SDL issuers near to the maturity date of the index.

### Target Date

30 April 2028

## Index Features

- Government securities (G-Sec) with a minimum outstanding of Rs.25000 crores.
- State issuers with a minimum outstanding of Rs.1,000 crores in the eligible period, having the security nearest to maturity.

### Eligible Period for G-Sec & SDL

Securities maturing in 1- year period before the target date.

### Asset Allocation

- G-Sec: 50%
- SDL: 50%

## Securities Selection Methodology: G-Sec

- All Securities are selected on the basis of Amount Outstanding.
- Minimum Amount Outstanding should be Rs.25000 crore.
- The index constituents are valued on a daily basis using CRISIL Valuations.

### Weighing Approach

- Weights to individual securities will be calculated in the ratio of amount outstanding (30% weightage) and liquidity score (70% weightage).
- Liquidity score will be calculated based on the volume traded (70%), number of trades (15%) and days traded (15%) in the previous quarter.

### Rebalancing, Review

- Eligible securities will be added on a 6 monthly basis and weights will be redistributed based on ratio of amount outstanding (30% weightage) and liquidity score (70% weightage).

### Monthly weight reset and cash flow reinvestment

- Any cash flows accruing to the index on account of coupon cash flows, part redemption of the security or securities, will be reinvested on the same day in the index in the proportion of existing weights.
- As the index includes securities that shall mature during the twelve month period ending on the final maturity date of the index, any proceeds from the redemption of securities prior to the final maturity date of the index shall be reinvested as per waterfall approach specified in the SID.
- The relative weights of the Government securities will change due to price movement and will be reset during the 6 monthly rebalancing.

Source: HSBC Asset Management, CRISIL Indices, Data as at 28 February '22
HSBC CRISIL IBX 50:50 Gilt Plus SDL Apr 2028 Index Fund will endeavour to replicate the performance of this index subject to tracking errors by replicating the allocation of Gilt and SDL. For complete details on the index refer to SID.

# Tapping the quality opportunity the passive way

## About the Index – CRISIL IBX 50:50 Gilt Plus SDL Index – April 2028 - Security Selection Methodology – SDL

**Issuer Selection**

- All states with issuances in maturing in the eligible period will be shortlisted
- Top 10 issuers with a minimum total amount outstanding of Rs.1,000 crores in the eligible period will be selected on the basis of liquidity. If less than 10 issuers are available, all issuers will be selected.
- Liquidity score will be calculated based on the volume traded (70%), number of trades (15%) and days traded (15%) in the previous quarter.

**Security Selection**

- For each issuer selected, security having maturity nearest to the target date shall be selected, from securities maturing in eligible period, with minimum amount outstanding of Rs. 100 crores will be considered.
- The index constituents are valued on a daily basis using CRISIL Valuations

**Weighing Approach**

- Weights to the issuers will be divided equally, at the inception of the index.
- Each issuer will be subject to a cap of 15%
- The weights may drift due to price movement, and due to cash flows accruing on account of coupon cash flows, and will not get reset.

**Rebalancing**

- The securities will be held till maturity.
- If the issuer cap of 15% is being breached, additional / excess amount may be invested in the rest of the securities of the same asset class which are part of the index
- Any cash flows accruing to the index on account of coupon cash flows, part redemption of the security or securities, will be reinvested on the same day in the index in the proportion of existing weights, subject to 15% single issuer limit.
- As the index includes securities that shall mature during the twelve month period ending on the final maturity date of the index, any proceeds from the redemption of securities prior to the final maturity date of the index shall be reinvested according to following waterfall approach as per waterfall approach specified in the SID.

Source: HSBC Asset Management, CRISIL Indices, Data as at 28 February ‘22
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# Index Constituent Issuers

CRISIL IBX 50:50 Gilt Plus SDL Index – April 2028

## G-Secs with weightage%

7.17% GS 2028 (14.84%)

6.79% GS 2027 (21.64%)

8.26% GS 2027 (6.87%)

8.28% GS 2027 (6.65%)

## SDLs have 5% equal weightage

- Karnataka
  6.99 % KARNATAKA SDL 2028
- Maharashtra
  6.98 % MAHARASHTRA SDL 2028
- Tamilnadu
  8.24 % TAMILNADU SDL 2028
- West Bengal
  8.09 % WEST BENGAL SDL 2028
- Gujarat
  8.25 % GUJARAT SDL 2028
- Uttar Pradesh
  7.98 % UTTAR PRADESH SDL 2028
- Telangana
  6.98 % TELANGANA SDL 2028
- Rajasthan
  7.98 % RAJASTHAN SDL 2028
- Andhra Pradesh
  7.8 % ANDHRA SDL 2028
- Madhya Pradesh
  8.05 % MADHYA PRADESH SDL 2028

Source: CRISIL Indices, HSBC Asset Management, Data as at 28 February '22
HSBC CRISIL IBX 50:50 Gilt Plus SDL Apr 2028 Index Fund will endeavour to replicate the performance of this index subject to tracking errors by replicating the allocation of Gilt and SDL. The index constituents and their respective weightages are indicative only and subject to change when the final index is constituted. For complete details on the index refer to SID.

# Summary

HSBC CRISIL IBX 50:50 Gilt Plus SDL Apr 2028 Index Fund (HGSF)[1]

HGSF aims to **track the index performance while offering safety and liquidity**

Offers safety with **relatively low credit risk** by investments in G-Sec and SDL

The fund focuses on **rich steepness of the curve vs shorter end**. **HGSF aims to focus on the six year target maturity segment which looks attractive** considering volatile outlook on long term securities

**Open ended fund with target maturity and no exit Load, offers regular liquidity and tax benefits with 7 indexations**

The fund with a **mix of quality debt papers offer better risk adjusted performance and liquidity**

**Find the right opportunity to meet your financial goals with HGSF**

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# HSBC CRISIL IBX 50:50 Gilt Plus SDL Apr 2028 Index Fund

An open-ended Target Maturity Index Fund tracking CRISIL IBX 50:50 Gilt Plus SDL Index – April 2028. Relatively high interest rate risk and relatively low credit risk.

**Investment Objective**

- The investment objective of the Scheme is to provide returns corresponding to the total returns of the securities as represented by the CRISIL IBX 50:50 Gilt Plus SDL Index – April 2028 before expenses, subject to tracking errors. However, there is no assurance that the investment objective of the Scheme will be achieved.

**Benchmark**

- CRISIL IBX 50:50 Gilt Plus SDL Index – April 2028

**Where will the scheme invest?**

- Investment in Government securities (Gsecs): The Scheme would invest in Gsecs comprising CRISIL IBX 50:50 Gilt Plus SDL Index – April 2028 and endeavour to track the benchmark index.
- Investment in State Development Loans (SDLs): The Scheme would invest in SDLs comprising CRISIL IBX 50:50 Gilt Plus SDL Index – April 2028 and endeavour to track the benchmark index.
- Money market instruments include commercial papers, commercial bills, treasury bills, Government securities having an unexpired maturity up to one year, call or notice money, certificate of deposit, usance bills, Tri-party REPO (TREPS) and any other like instrument as specified by the Reserve Bank of India from time to time.

**Fund Manager**

- Kapil Punjabi
- Over 14 years of experience in Research and Fixed Income fund management

Source – HSBC Asset Management India, SID of HSBC CRISIL IBX 50:50 Gilt Plus SDL Apr 2028 Index Fund
The above investment list is not exhaustive, please refer to the 'Where will the scheme invest?' section of the HSBC CRISIL IBX 50:50 Gilt Plus SDL Apr 2028 Index Fund SID

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* Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

| Potential Risk Class | | | |
|---|---|---|---|
| **Credit Risk →** | **Relatively Low (Class A)** | **Moderate (Class B)** | **Relatively High (Class C)** |
| **Interest Rate Risk ↓** | | | |
| Relatively Low (Class I) | | | |
| Moderate (Class II) | | | |
| Relatively High (Class III) | **AIII** | | |
| A Scheme with Relatively High interest rate risk and Relatively Low credit risk | | | |

- **Minimum Application Amount (Lump sum):** Rs.5000 | Rs.1 (multiples)
- **Minimum Additional investment:** Rs.1000 | Rs.1 (multiples)
- **Minimum Application Amount (SIP)**: Rs.500 per month (12 installments)
- **Entry Load**: Not applicable
- **Exit Load**: NIL

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# Annexure

# Advantage Passive Strategy

Underlying features of Passive strategy

- Invests in the index constituents in the same proportion
- Low cost efficient strategy
- Benefit from broader market outlook, transparent and no lock in feature
- Low risk of security selection
- Index Funds are efficient and popular vehicles to passive investing across the world

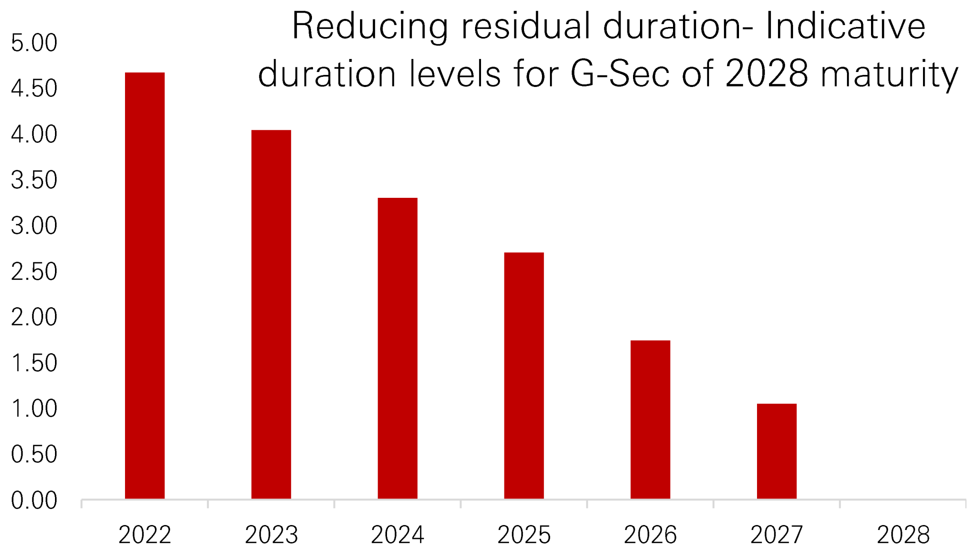
**Benefit from a low cost efficient strategy**

For illustration purpose only. Past performance may or may not be sustained in the future.

# Roll-down strategy illustration

Knowledge bytes

- **Roll Down strategy is an accrual strategy**
  - Generally used in elevated rates environment
  - Seek to earn only coupons/yield at regular intervals from its underlying portfolio by buying and holding security
- The average maturity of the scheme's portfolio, as a consequence, decreases with the passage of time.
- **Low- interest rate risk**: The strategy avoid impact from the expected increase in interest rates over time.
- It is useful for capturing higher present yield at any point of curve and gradually move towards shorter end of the curve which is less susceptible to interest rate risk.




**Average maturity of the portfolio decreases with the passage of time thus provides lower interest rate risk**

For illustration purpose only.

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