HSBC Dynamic Bond Fund

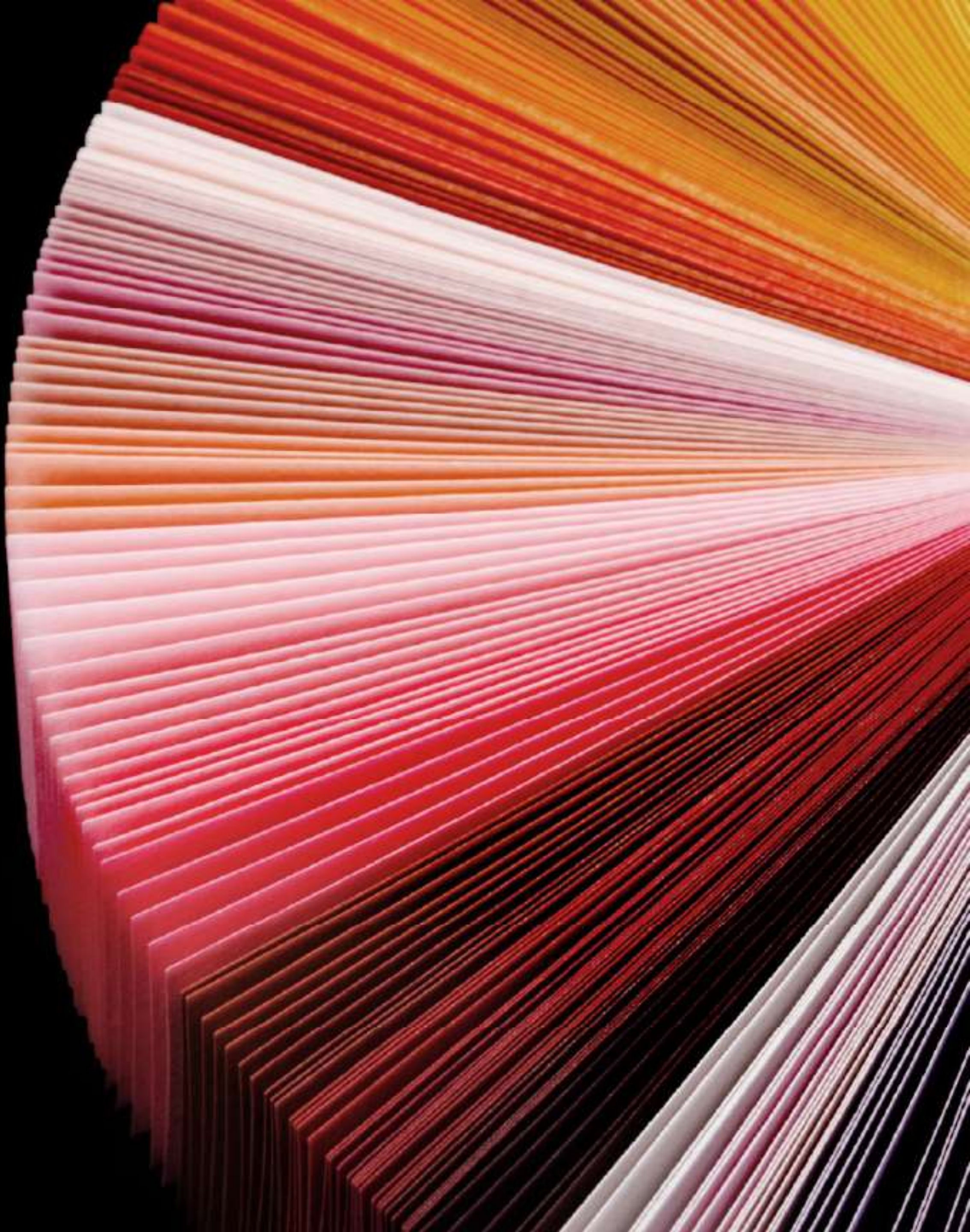
Product Deck

May 2023

HSBC Mutual Fund

PUBLIC

Fixed Income Market Update



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Fixed Income Top-down Macro economic factors

Impact on Bond markets

Global interest rate environment

Banking trends - Credit Deposit ratio

Fiscal policy

Real rates

Systemic Liquidity surplus

Current Account Deficit & Currency

Monetary Policy

CPI & Core Inflation trends

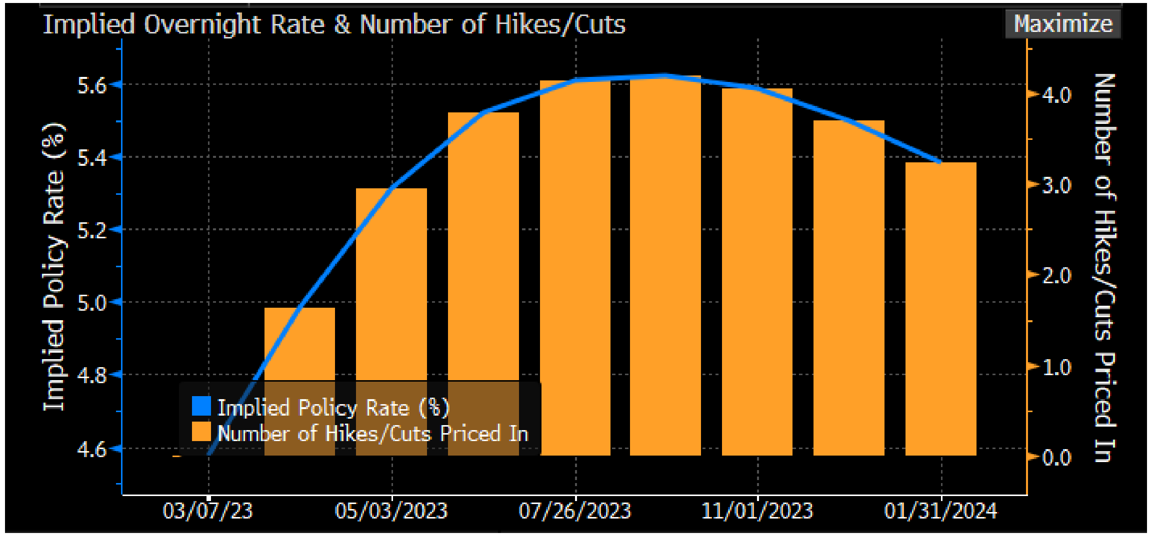
G-Sec/SDL Demand Supply dynamics

- Global Central banks likely to end the interest rate hikes this year, while keeping a close watch on inflationary pressures
- Cumulative rate hikes in this cycle by major central banks: Fed – 500 bps, BOE – 440 bps, ECB – 375 bps, MPC – 250 bps
- MPC unanimously kept the Repo Rate unchanged at 6.50% vs market expectations of a 25 bps hike, with the current pause to assess the 250 bps hike working through the system
- Real Rates and Small Savings rate turn favorable while we are at the end of the hiking cycle
- Budget FY2024 was on expected lines in terms of fiscal discipline, market borrowings and focus on Capex

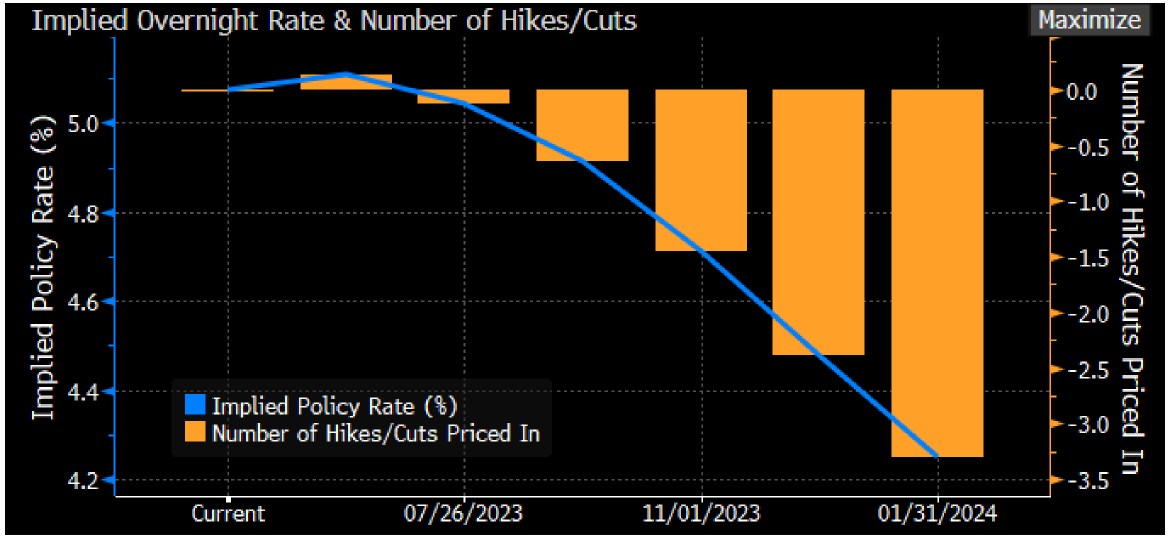
Source: Bloomberg, RBI
Data updated as on May 17, 2023

Wild swings in Fed Funds Rate on expectations of Fed pivot & flight to safety

US Fed expectations on 8-Mar-23



US Fed expectations on 17-May-23



- In less than a month's time, the one year forward Fed funds rate has collapsed by almost 100bps
- Regional Bank crisis in the US has led to massive repricing in rates in spite of higher inflation
- In India too, markets were earlier pricing RBI to reach peak repo rate of 6.75%-7.00%. However, possibility of a lower peak at 6.50% have materially risen

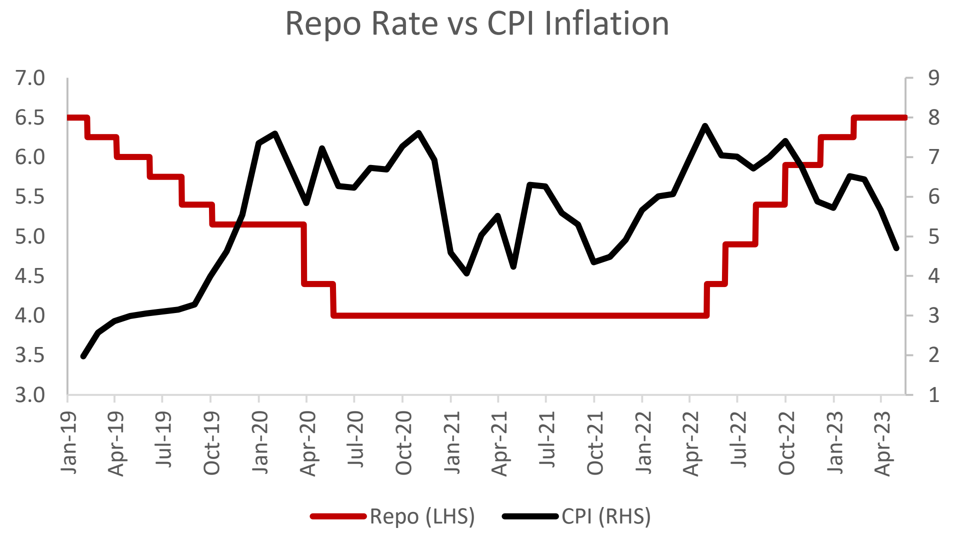
Policy rates have peaked

- Policy rates have peaked: RBI in all probability has reached terminal rate of 6.50% in it's April 2023 policy meeting

- Cooling off in inflation prints witnessed over the last few readings, with average print lower than RBI estimates

- Going forward, pressure on MPC to further tighten rates has reduced, taking markets closer to peak policy rates

- Broad market expectations is for MPC to continue pause at 6.50% and observe the impact of the consecutive hikes done over the last 1 year



Source: Bloomberg
Data updated as on May 17, 2023

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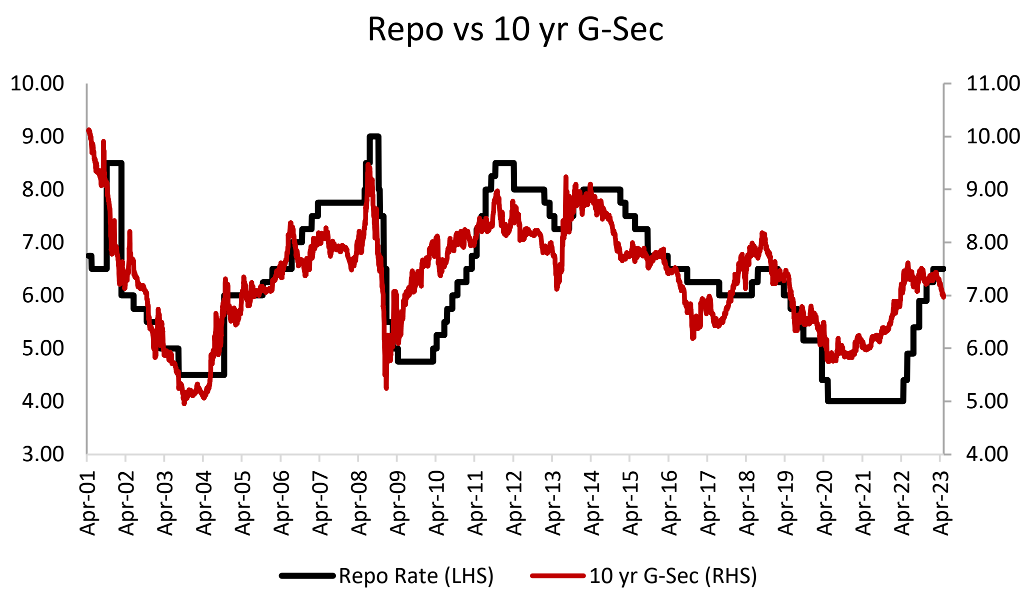
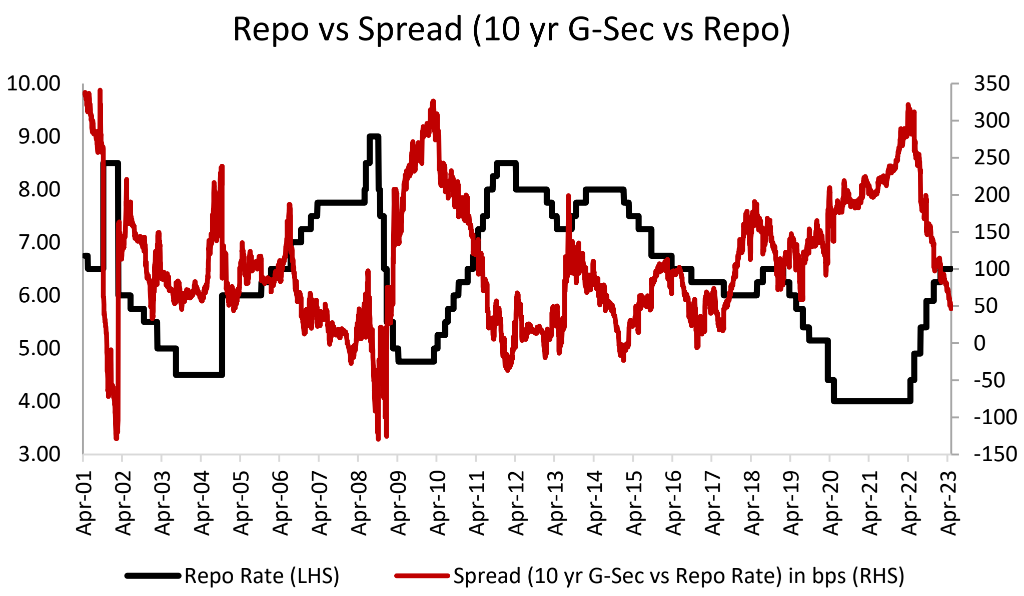
Fixed Income – G-Sec markets pre-empt rate actions





- Movement in G-Sec starts much before the actual rate action; Spreads are typically high before the first rate hike and are low before the first rate cut
- Barring the 2013 period where rates in India shot up rapidly, 10-year G-Sec yields have remained broadly below 8% over the last 10 years
- Strengthening macro-economic factors, strong FX reserves and stable currency remain the key differentiators from the 2013 episode

Although rate cuts might not be imminent, adding positions gradually might be better than timing entry points

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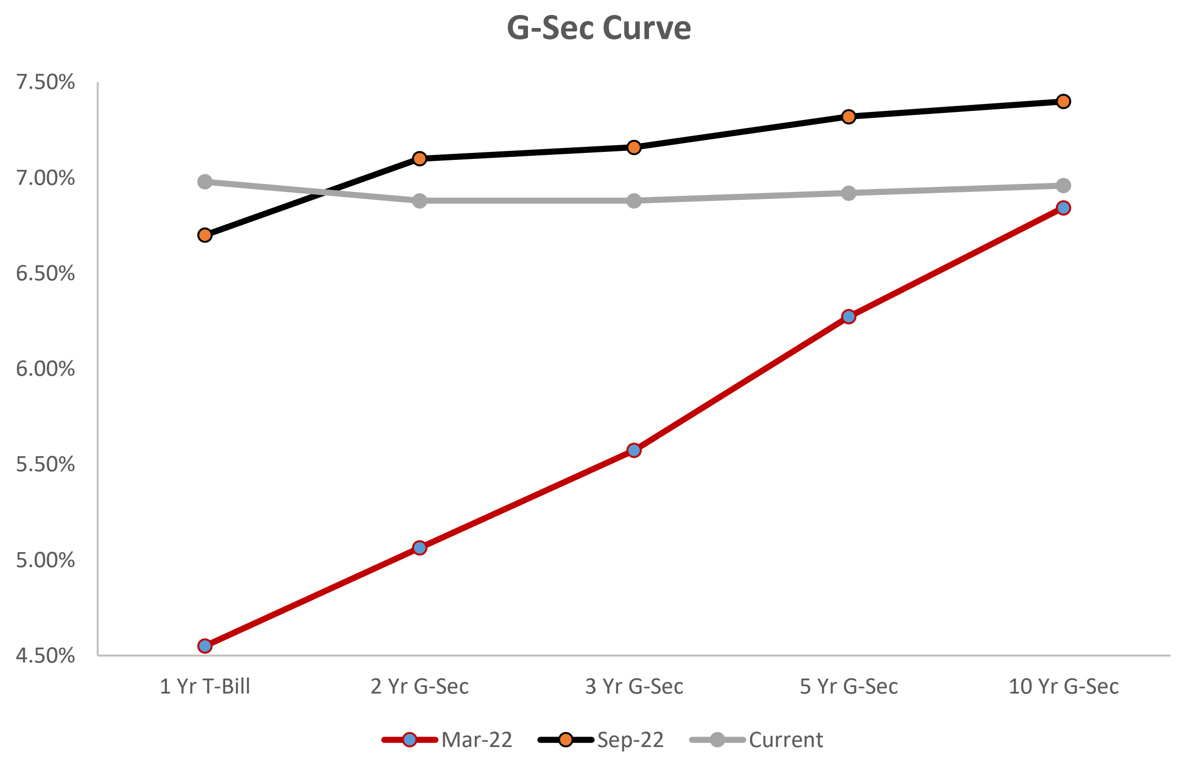
Source: Bloomberg
Data updated as on May 17, 2023

Fixed Income – Market movement and Flattening of yield curve

	Mar-22	Sep-22	Current	Mar'23 vs Mar'22 (bps)
3 mth T-Bill	3.70%	6.03%	6.85%	315
1 Yr T-Bill	4.55%	6.70%	6.98%	243
2 Yr G-Sec	5.06%	7.10%	6.88%	182
3 Yr G-Sec	5.57%	7.16%	6.88%	131
5 Yr G-Sec	6.27%	7.32%	6.92%	65
10 Yr G-Sec	6.84%	7.40%	6.96%	12
3 mth CD	3.85%	6.30%	7.00%	315
1 Yr CD	4.72%	7.05%	7.42%	270
2 Yr AAA PSU	5.40%	7.38%	7.47%	207
3 Yr AAA PSU	5.83%	7.50%	7.48%	165
5 Yr AAA PSU	6.38%	7.58%	7.45%	107
10 Yr AAA PSU	7.05%	7.73%	7.40%	35

Credit Spreads (bps)	Mar-22	Sep-22	Mar-23
1 Yr	17	35	44
3 Yr AAA PSU	18	21	48
5 Yr AAA PSU	1	13	41
10 Yr AAA PSU	9	19	32



- Sovereign yield curve has flattened with 1 year T-Bill moving up by ~240 bps since Mar’2022 while 10-year G-Sec has moved up by only 12 bps
- Shorter end of the curve (3-month to 1 year) has moved up due to repo rate hikes, tighter liquidity and higher CD issuances
- Credit spreads across the curve have widened with 3 to 5 year spreads moving up to 30-50 bps

Yield Curve has flattened over the last year

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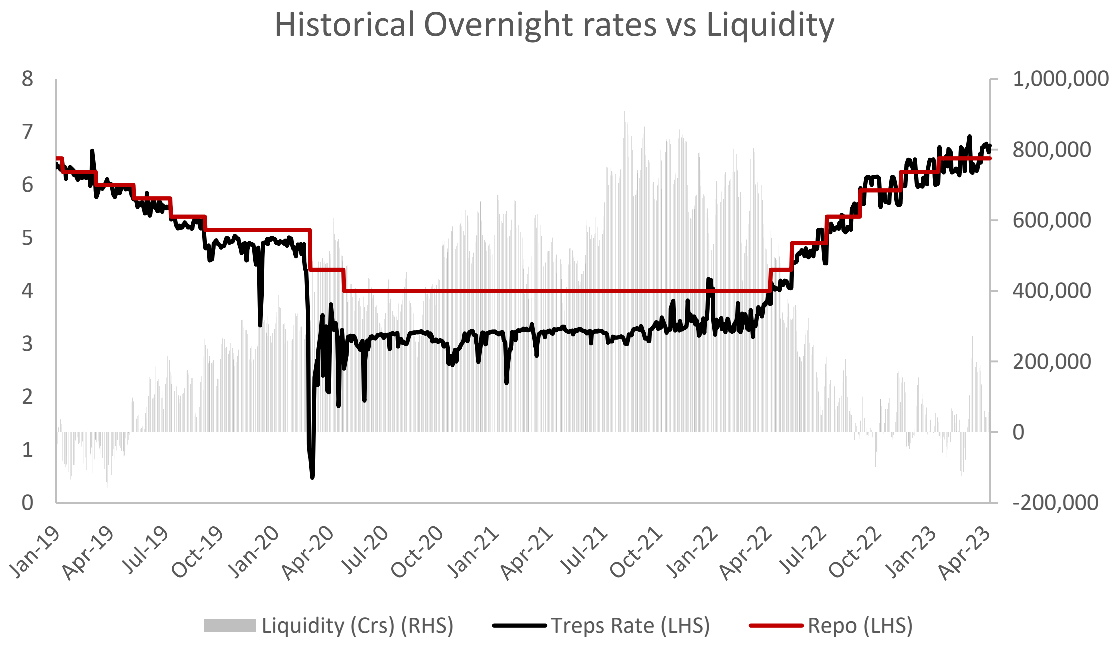
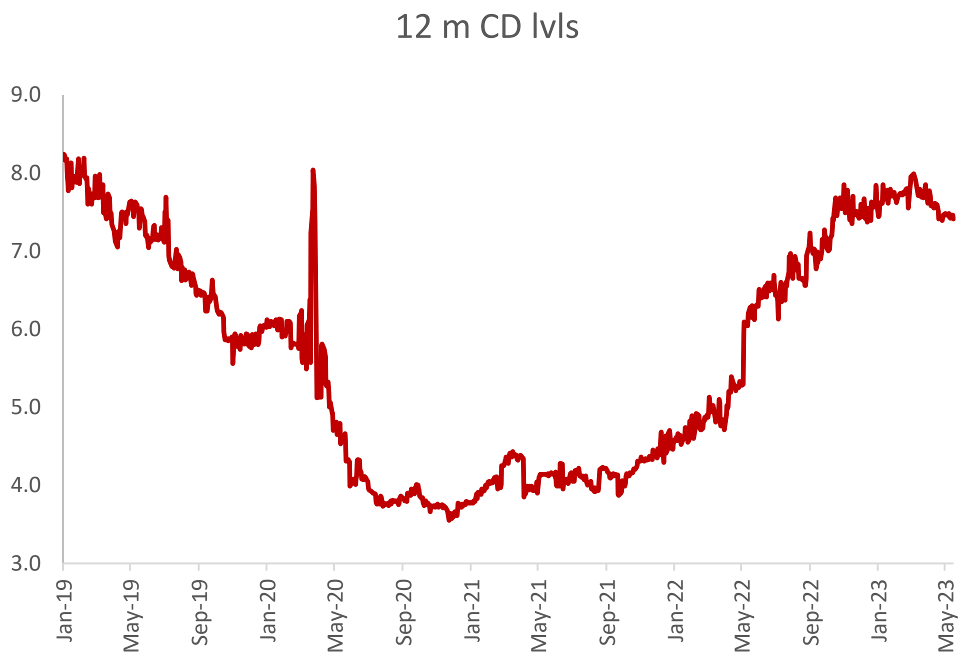
Source: Bloomberg, Valuation Reports
Data updated as on May 17, 2023

Systemic liquidity has flipped to neutral

- Systemic liquidity has flipped to neutral (from huge surplus): RBI has been successful in bringing down surplus system liquidity to near neutral levels; operating rates are now closer or above REPO rate
- With liquidity likely to remain neutral to slightly negative over the next few months, spreads in the 1 year space continue to look attractive





Source: Bloomberg
Data updated as on May 17, 2023

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HSBC Dynamic Bond Fund

Fund snapshot and approach

Fund Category	Fund Manager	Benchmark [1, 2]	Inception Date	AUM
Dynamic Bond	Jalpan Shah and Shriram Ramanathan	NIFTY Composite Debt Index A-III	27 Sep 2010	Rs. 199.25 Cr

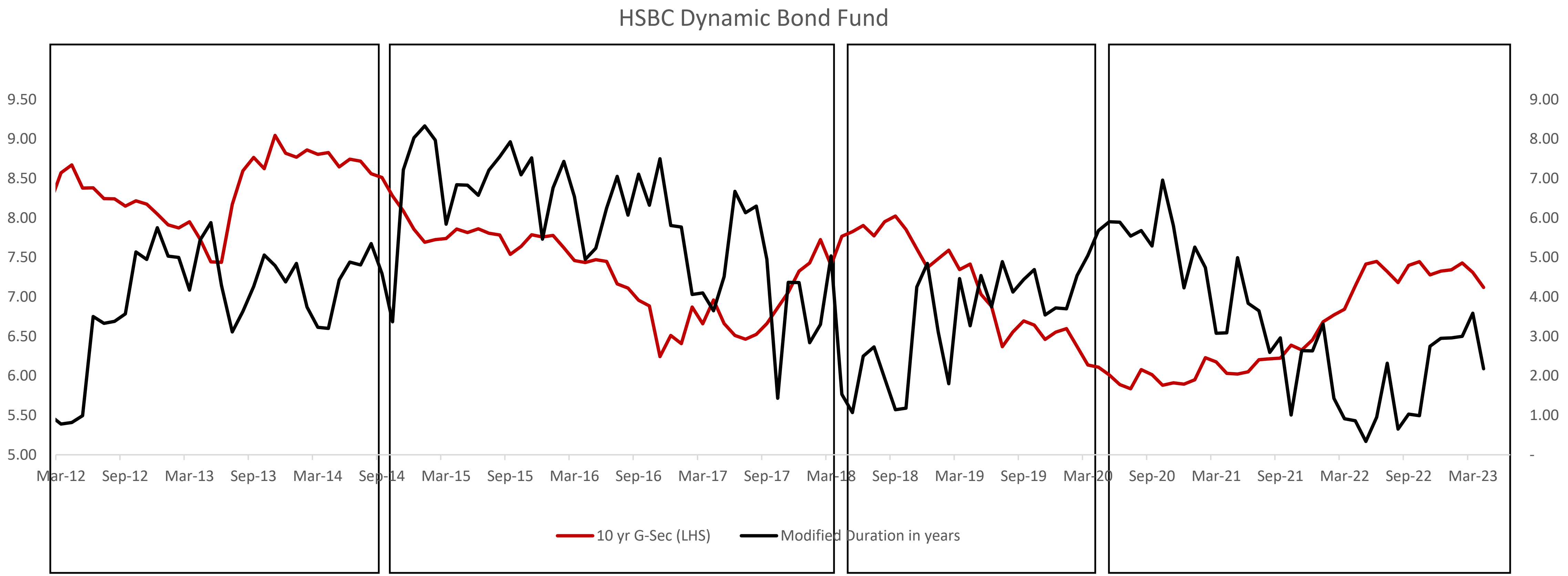
- Actively managed fund investing across the yield curve in Govt. Securities and high-quality AAA rated credits to generate alpha
- Dynamic duration management to seize potential upsides when interest rates are expected to soften while also reducing risks in an uncertain environment
- Diversified portfolio spread across government securities, corporate bonds and money market instruments.
- Investments in a highly liquid portfolio to enable positioning changes based on evolving scenario.
- Current investment mix of NCD and G-Sec

Issuer	Sum of % portfolio
GOI	22.70%
Rec Limited	8.10%
Reliance Industries Limited	7.53%
SIDBI	7.92%
NABARD	7.74%
National Housing Bank	7.50%
Indian Oil Corporation Limited	7.48%
LIC Housing Finance Limited	5.03%
HDFC Ltd	4.91%
Cash	21.20%
Grand Total	**100.00%**

Dynamic Bond Fund	
AUM (INR Crs)	199.25
Cash	6.2%
NCD	56.21%
G-Sec	42.65%
YTM (%)	22.7%
Avg Maturity (in Days)	2.79 years
Mod Duration (in Days)	2.18 years

Source: Portfolio Factsheet
Data updated as on April 28, 2023

Active Duration Management – Dynamic Bond Fund



- March-12 to Sept-14 : The fund was able to increase duration during the rate cutting cycle and gradually increase duration as the rates peaked
- Sept-14 to March-18 : The fund operated on higher duration during the one way movements in rates till Sept-17 and then decreased duration.
- March-18 to March-20: During the rate cutting cycle, the duration of the fund was on higher side.
- March-20 to March-23: During covid rate cuts, the fund had higher duration while post covid rate hikes, the duration was reduced.

Source: Bloomberg, Monthly Portfolio Factsheet
Data updated as on April 28, 2023

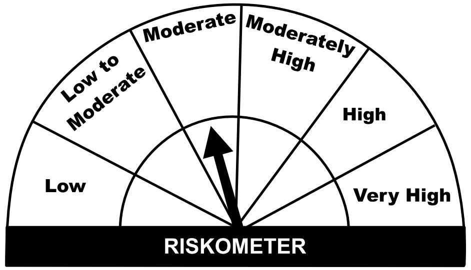
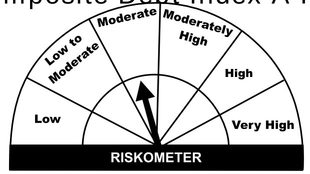
HSBC Dynamic Bond Fund

HSBC Dynamic Bond Fund An open-ended dynamic debt scheme investing across duration. A relatively high interest rate risk and relatively low credit risk

- Fund Strategy:
  - Increased Duration from below 1 year during the rate hiking cycle to ~ 2-4years currently.
  - Increased duration through Gsec in the 4-10 year
  - Increased duration through AAA bonds in 1- 5 year Segment.
  - Continue with 100% long term AAA rating in Bond exposures ensuring very high portfolio quality.

Source: HSBC Mutual Fund, Data updated as on March 31, 2023

Product Label

HSBC Dynamic Bond Fund (Erstwhile L&T Flexi Bond Fund)		
 Investors understand that their principal will be at Moderate risk	Dynamic Bond Fund - An open ended dynamic debt scheme investing across duration. A relatively high interest rate risk and relatively low credit risk. This product is suitable for investors who are seeking*: • Generation of reasonable returns over medium to long term • Investment in fixed income securities * Investors should consult their financial advisers if in doubt about whether the product is suitable for them. Note on Risk-o-meters: Riskometer is as on 30 April 2023, 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 Index: NIFTY Composite Debt Index A-III 

Potential Risk Class (HSBC Dynamic Bond Fund)			
Credit Risk → / Interest Rate Risk ↓	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
Relatively Low (Class I)			
Moderate (Class II)			
Relatively High (Class III)	A-III		
A Scheme with Relatively High interest rate risk and Low credit risk.			

Data as of 30 April 2023

HSBC Mutual Fund

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

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