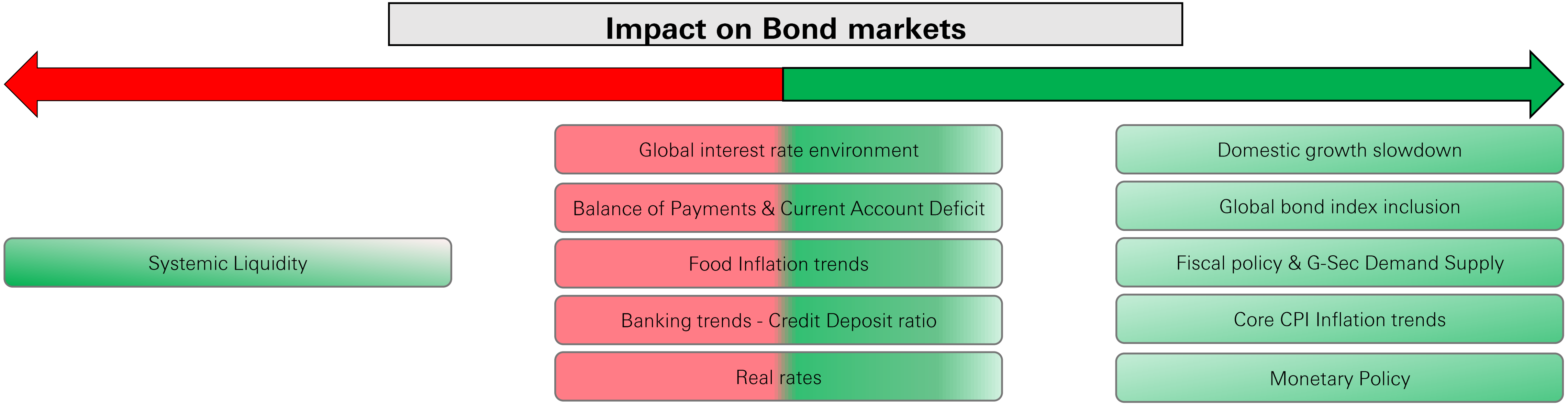
HSBC Banking and PSU Debt Fund

Capitalising on Opportunities

HSBC Mutual Fund

Macro factors aligning for softening in rates

Top-down assessment suggests a positive bias for interest rates



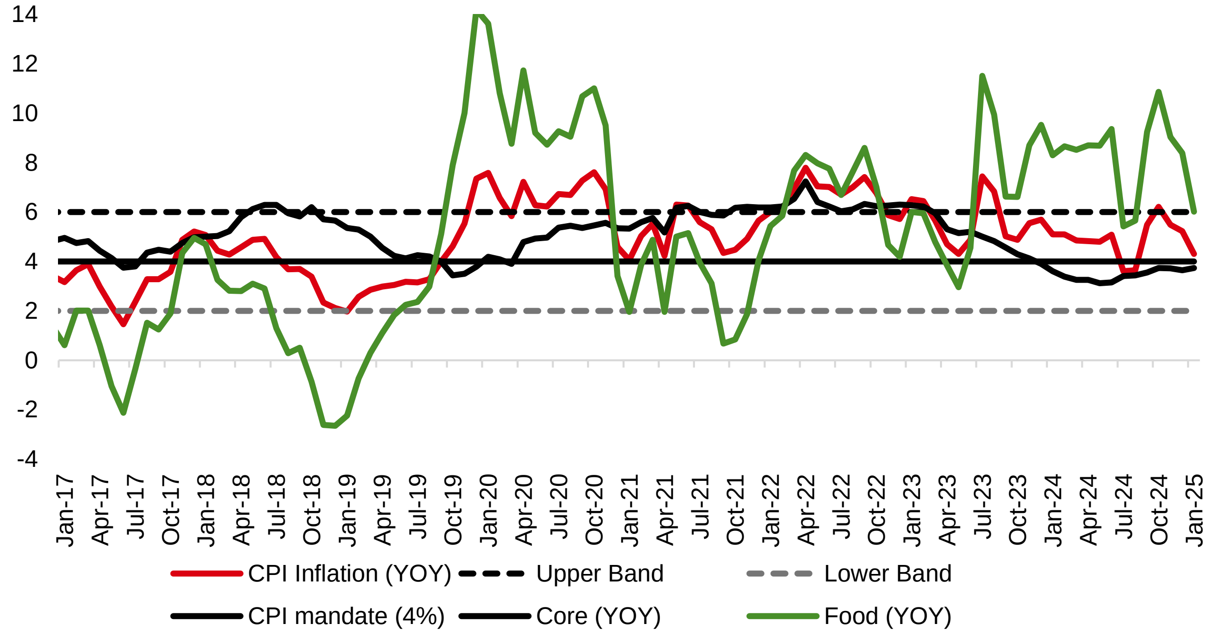
- The MPC eased policy rates by 25 bps in the Feb meeting, paving the way for further easing
- RBI announced a slew of measures to inject liquidity into the banking system – OMO purchases, long tenor VRRs, daily VRRs and FX Buy Sell swap auctions
- Government has continued on its path of fiscal consolidation with Fiscal deficit for FY2025 and FY2026 estimated at 4.8% and 4.4% respectively
- GDP growth print for Q2 FY2025 came in significantly lower at 5.4%, indicating weakness in demand
- Recent inflation prints have moderated due to softening in food prices; RBI expects headline inflation to reach 4% in Q2 FY2026
- Since, the J. P. Morgan index inclusion announcement, FPIs have bought ~ USD 20 bn of Indian Government Bonds (IGBs)

Macro economic factors along with liquidity measures by RBI positive for rates

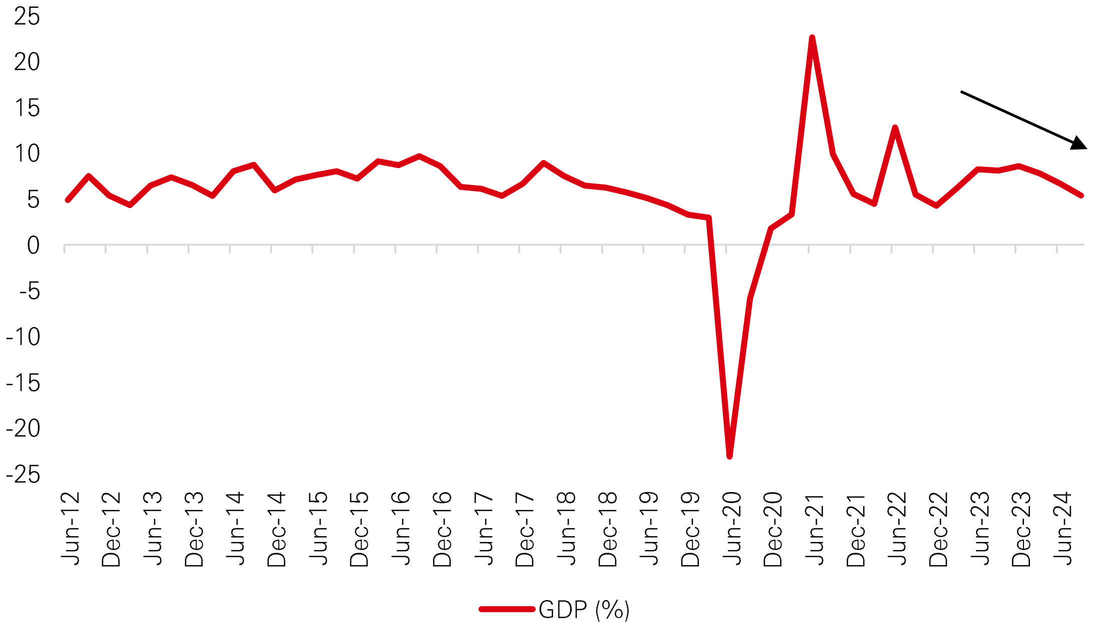
Source: Bloomberg, RBI, CCIL, NSDL
Data updated as on Feb 14, 2025

Growth inflation dynamics has turned favourable for lower yields

Inflation trajectory vs Targeted mandate



GDP showing signs of weakening



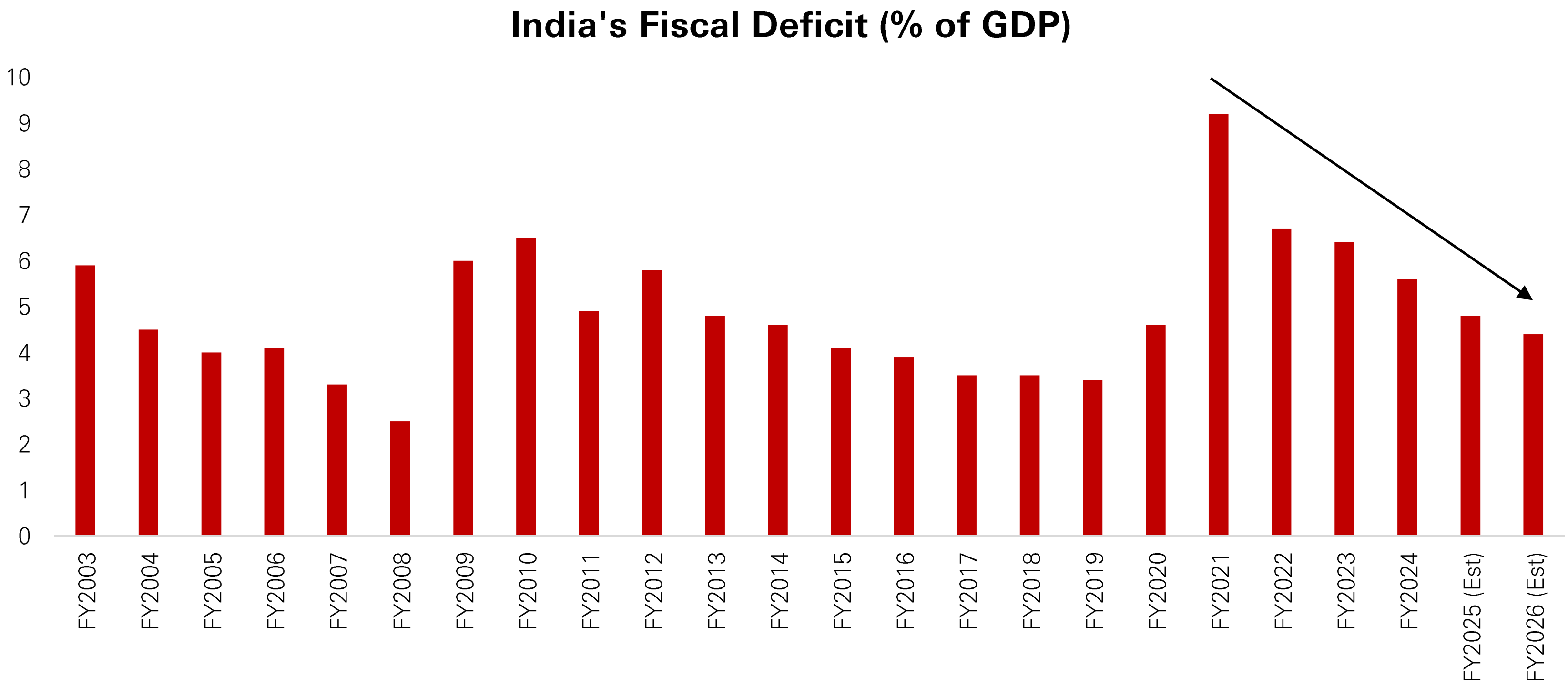
- CPI inflation for Jan 2025 came in marginally lower than expected at 4.31%, with RBI expecting headline inflation to reach 4% by Q2 FY2026
- Core inflation continues to remain benign at sub-4% levels; food inflation has come off over the last few months due to correction in vegetable prices
- GDP growth for Q2 FY2026 came in sharply lower than market expectations at 5.4%; with markets now expecting GDP growth to undershoot RBI's estimates

Softer inflation and weaker growth creates room for further policy easing

Source – Bloomberg, data as on Feb 14, 2025, **Past performance may or may not be sustained in the future and is not indicative of future results.**

HSBC Mutual Fund

Government focused on Fiscal consolidation - favourably impacting demand supply dynamics of bonds



- Post 2014 general elections, Central Government deficits had consistently been brought down from 6% earlier to 3.5%
- During covid Govt deficit was raised above 9% and then brought down gradually to below 6%
- Beyond FY2026, Government committed to maintain a declining path for Debt to GDP, implying continuing fiscal consolidation

Government's target is to bring Fiscal Deficit to 4.4% by FY2026

Source – Bloomberg, Union Budget data as on Feb 14, 2025, **Past performance may or may not be sustained in the future and is not indicative of future results.**

HSBC Mutual Fund

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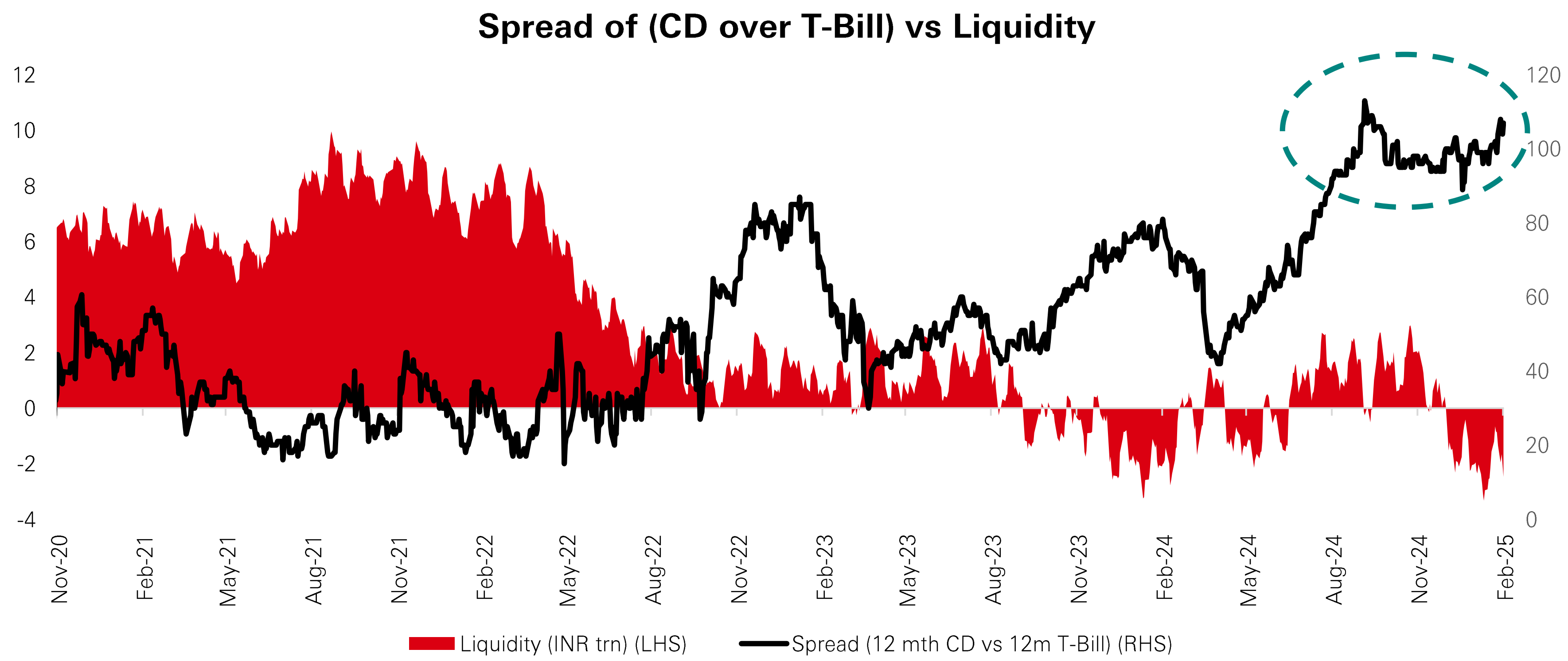
Where do we see value?

Strategy 1: 1 year Bank CDs offer good value with RBI infusing liquidity into the system



- Liquidity turned negative in Dec 2024 due to heavy intervention by RBI in the FX markets to stabilize currency
- RBI announced a variety of measures to infuse liquidity into the system, including OMO purchases, long tenor VRRs and FX Buy Sell swaps
- With Banks heavily offloading G-Sec in OMO auctions to RBI, need to issue incremental CDs during the quarter might be lesser than previous years

1 year Bank CDs are trading at ~ 100 bps over 1 year T-Bill, offering good value in a rate easing environment

Source – Bloomberg, HSBC MF estimates data as on Feb 14, 2025, **Past performance may or may not be sustained in the future and is not indicative of future results.**
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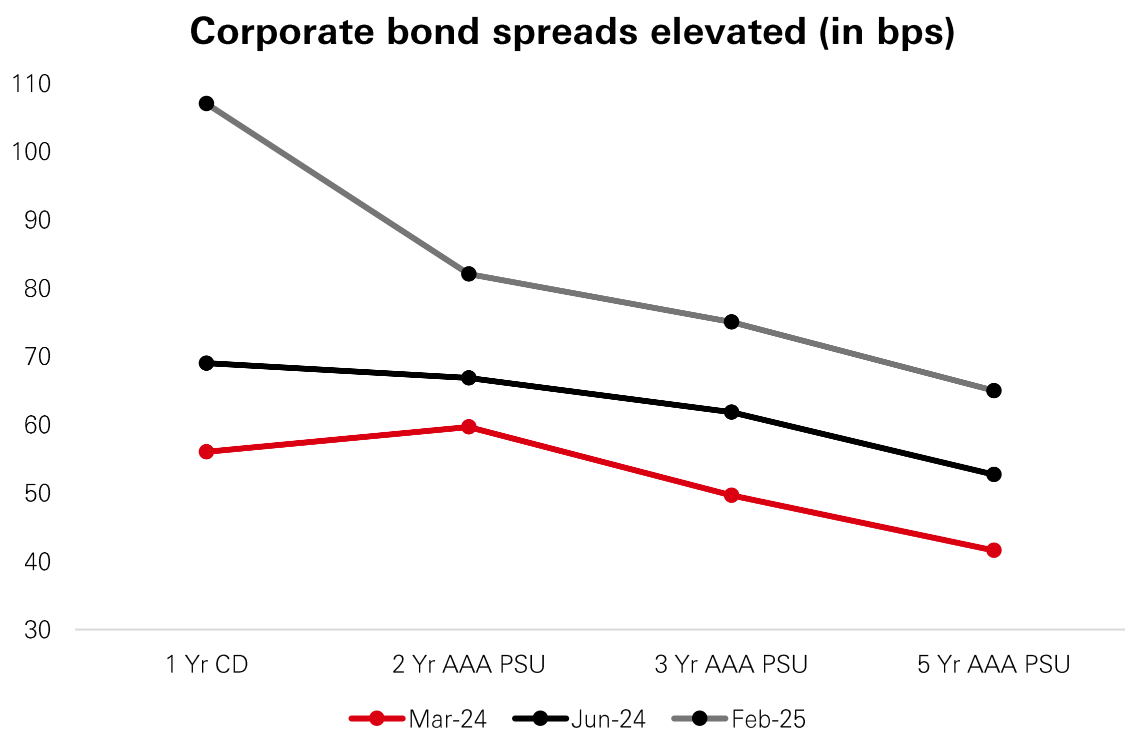
Strategy 2: Corporate bond curve may provide good value as RBI deploys measure to infuse liquidity

	Mar-24	Sep-24	Feb-25	Feb'25 vs Mar'24 (bps)
3 mth T-Bill	6.89%	6.79%	6.45%	-44
1 Yr T-Bill	7.04%	6.94%	6.53%	-51
2 Yr G-Sec	7.03%	6.98%	6.62%	-41
3 Yr G-Sec	7.03%	6.98%	6.63%	-40
5 Yr G-Sec	7.05%	7.02%	6.64%	-41
10 Yr G-Sec	7.06%	7.01%	6.71%	-35
3 mth CD	7.60%	7.15%	7.41%	-19
1 Yr CD	7.60%	7.63%	7.60%	0
2 Yr AAA PSU	7.75%	7.77%	7.55%	-20
3 Yr AAA PSU	7.65%	7.72%	7.49%	-16
5 Yr AAA PSU	7.59%	7.67%	7.40%	-19
10 Yr AAA PSU	7.56%	7.51%	7.25%	-31

Credit Spreads (bps)	Mar-24	Jun-24	Feb-25
1 Yr	56	69	107
2 Yr AAA PSU	60	67	82
3 Yr AAA PSU	50	62	75
5 Yr AAA PSU	42	53	65

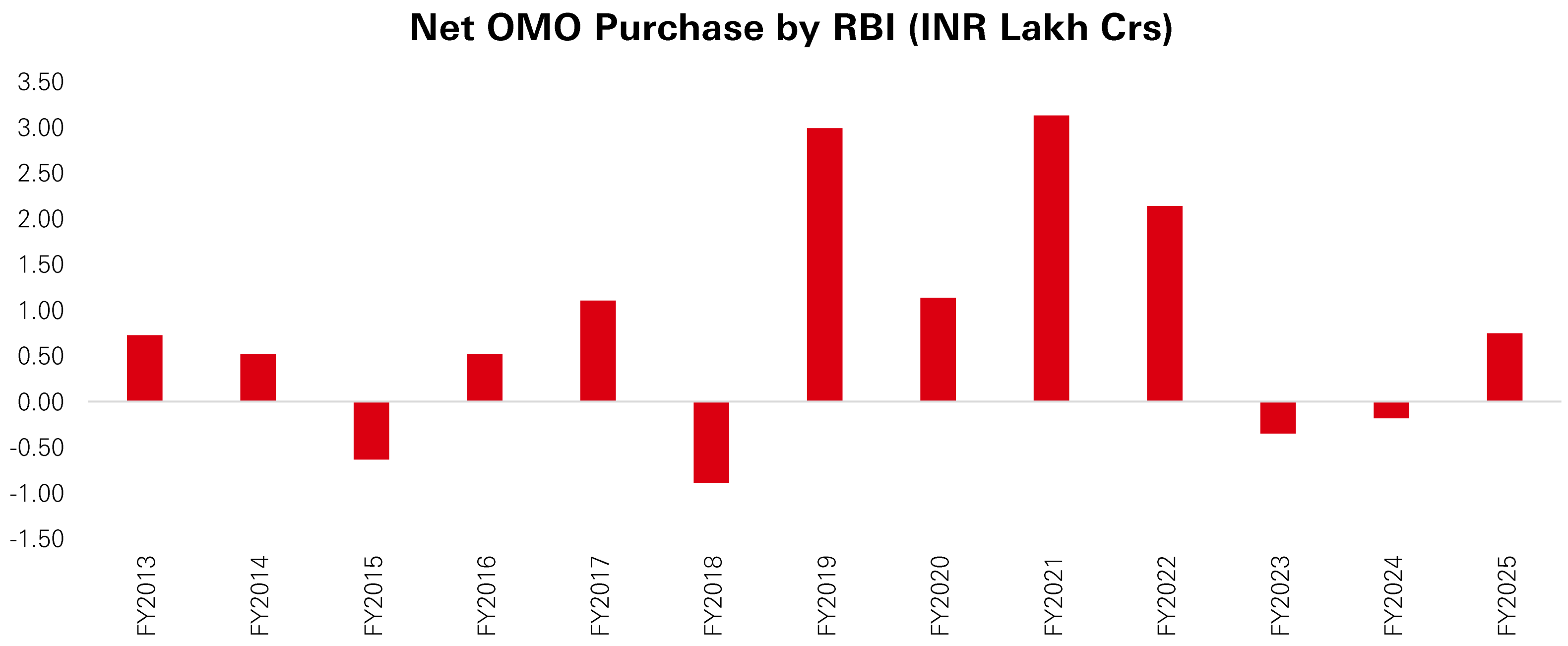


- G-Sec yield curve has moved lower by 30-40 bps across the curve since Mar 2024, with majority of the softening in yields happening post Jun 2024
- Credit spreads across the curve have widened with 3 to 5 year spreads moving up to 65-75 bps
- Investors can potentially look to lock in favourable spreads, as credit spreads are expected to compress with liquidity easing and rate cuts

The 3-5 year segment of the corporate bond curve offers relative value with further policy easing expected

Source – Bloomberg, HSBC MF estimates, data as on Feb 14, 2025, **Past performance may or may not be sustained in the future and is not indicative of future results.**

Strategy 3: RBI stepping-up OMO purchases; tailwind for G-Sec yields



- RBI is on front-foot to infuse system liquidity; OMO purchases have seen a return in 2025
- So far RBI has purchased almost INR 1 Lakh Crs worth of IGBs in this calendar year (with additional INR 40,000 Crs worth of auction scheduled for Feb 20, 2025), including both auction-based and screen-based purchase; with auctions predominantly in the 5-13 year segment
- We believe RBI will have to conduct further OMO purchases to bring system liquidity to positive

RBI OMO purchases turns G-Sec demand supply dynamics further positive, especially in the 5-10 yr segment

Source – Bloomberg, data as on Feb 14, 2025, **Past performance may or may not be sustained in the future and is not indicative of future results.**

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Valuation of bonds, in terms of forward rates, remain cheap

Tenor	1 year	2 years	3 years	4 years	5 years
G-Sec Yield Curve (s.a.)	6.62%	6.59%	6.64%	6.66%	6.63%
1 year G-Sec Forward Curve (s.a.)	6.57%	6.74%	6.70%	6.51%	

Tenor	1 year	2 years	3 years	4 years	5 years
Swap Yield Curve	6.30%	6.06%	6.06%	6.09%	6.09%
1 year Swap Forward Curve	5.82%	6.06%	6.19%	6.08%	

While the swap curve is pricing in almost 2 rate cuts over the next year, the Govt. bond curve continues to price in negligible rate cuts

Source: Bloomberg, NDS OM, Data as on Feb 14, 2025

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Key takeaways

Domestic growth inflation dynamics has turned favourable

RBI has announced a slew of measures to infuse liquidity into the system

1 yr CDs offer good value at over 100 bps over T-Bills

Corporate bond spreads at 65-75 bps in the 3-5 year segment offers good value

RBI purchasing G-Sec through OMO auctions improves the G-Sec demand supply dynamics

G-Sec cash curve still not pricing significant rate cuts, compared to the swap curve

Hence, we believe HSBC Banking PSU and Debt Fund is well positioned to generate alpha over an investment horizon of 1 to 2 years

Source – Bloomberg, RBI

Data as on Feb 14, 2025. Note : Views provided above are based on information available in public domain at this moment and subject to change. Investors should not consider the same as investment advice. Please consult your financial advisor for any investment decision

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Fund Proposition

Fund Strategy

	Current portfolio positioning		Indicative portfolio positioning
CDs and 1-2 yr Corporate bonds	40% - 50%	We believe 1 year CDs and 5-10 yr G-Sec may outperform in the near term with liquidity easing and RBI OMO purchases Thereafter, we intend to increase position in 3-7 year corporate bonds, with expectations of spread compression	25% - 35%
3-7 yr Corporate bonds	30% - 40%		55% - 65%
5-10 yr G-Sec	15% - 25%		10% - 15%

Source – HSBC MF mid Feb portfolio, HSBC MF estimates data as on Feb 14, 2025, Past performance may or may not be sustained in the future and is not indicative of future results. Please refer Scheme Information Document (SID) for more details on Asset Allocation of the scheme. Note : Views provided above are based on information available in public domain at this moment and subject to change. Investors should not consider the same as investment advice. Please consult your financial advisor for any investment decision

HSBC Banking and PSU Debt Fund (HBPF)

Fund snapshot and approach

Fund Category	Fund Manager	Benchmark [1, 2]	Inception Date	AUM[3&]
Banking and PSU Fund	Mahesh Chhabria* and Mohd. Asif Rizwi*	Nifty Banking & PSU Debt Index A-II	12 Sep 2012	Rs. 4,128.58 Cr

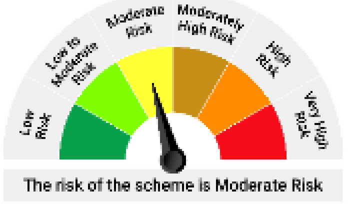
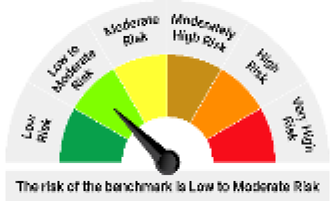
- The scheme is ideally suited for investors who are seeking a quality portfolio investing in higher rated Banking and PSU debt instruments
- The fund offers a prudent portfolio considering the risk appetite whilst seeking optimal returns
- HSBC Banking and PSU Debt Fund predominantly seeks to maintain duration of 2.5-3 years by investing in the mix of 1 yr assets, 3-7 yr corporate bonds and 5-10 yr Govt Securities
- The fund continues to maintain the high credit quality with the portfolio in AAA or equivalent securities

Issuer (top 10)	Rating	% to Net Assets
Indian Railway Finance Corporation Limited	CRISIL AAA	9.35%
National Housing Bank	CRISIL AAA	7.71%
Export Import Bank of India	CRISIL AAA	6.28%
NTPC Limited	CRISIL AAA	6.15%
Small Industries Development Bank of India	ICRA AAA / CRISIL AAA	9.05%
National Bank for Agriculture & Rural Development	CRISIL AAA / ICRA AAA	8.73%
HDFC Bank Limited	CARE AAA / CRISIL AAA	4.72%
Power Grid Corporation of India Limited	CRISIL AAA	3.22%
Power Finance Corporation Limited	CRISIL AAA	2.96%
Bajaj Finance Limited	CRISIL AAA	2.46%

Quantitative Data	
Average Maturity	2.28 years
Modified Duration	1.91 year
Macaulay Duration	2.02 year
Yield to Maturity	7.41%

[1] As per clause 1.9 of the SEBI Master Circular dated June 27, 2024, 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 effective from 01 December 2021.
[2] Fund's benchmark has changed with effect from May 01, 2024.
[3] AUM is as on 31 January 2025.
[&]For disclosure of quarterly AUM/AAUM and AUM by geography, please visit our website: https://www.assetmanagement.hsbc.co.in/en/mutual-funds/investor-resources/information-library#&accordion1446811090=4
*Fund Manager - Mahesh Chhabria Effective 26 Nov 2022. Total Schemes Managed - 15
*Fund Manager - Mohd Asif Rizwi Effective 01 May 2024. Total Schemes Managed - 14
Note: The sector(s)/stock(s)/issuer(s) mentioned in this document do not constitute any research report nor it should be considered as an investment research, investment recommendation or advice to any reader of this content to buy or sell any stocks / investments. The Fund/portfolio may or may not have any existing / future position in these sector(s)/stock(s)/issuer(s).
Source – HSBC Mutual Fund, Data as of 31 January 2025.

Product Label: HSBC Banking and PSU Debt Fund

Scheme name and Type of scheme	*Scheme Risk-o-meter	Benchmark Risk-o-meter (as applicable)
HSBC Banking and PSU Debt Fund (An open ended debt scheme primarily investing in debt instruments of banks, public sector undertakings, public financial institutions and municipal bonds. A relatively high interest rate risk and relatively low credit risk.) **This product is suitable for investors who are seeking*:** • Generation of reasonable returns and liquidity over short term • Investment predominantly in securities issued by Banks, Public Sector Undertakings and Public Financial Institutions and municipal corporations in India	As per AMFI Tier 1. Benchmark Index: **NIFTY Banking & PSU Debt Index A-II**  	

* 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 31 January 2025, 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

Potential Risk Class (HSBC Banking and PSU Debt 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.			

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.

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GST - 27AABCH0007N1ZS, Email: investor.line@mutualfunds.hsbc.co.in | Website: www.assetmanagement.hsbc.co/in

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

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