

## HSBC MUTUAL FUND

### **Notice-cum-Addendum to the Scheme Information Document (SID) & Key Information Memorandum (KIM) of HSBC CRISIL IBX 50:50 Gilt Plus SDL Apr 2028 Index Fund ('the Scheme')**

NOTICE is hereby given that SEBI, vide Circular No. SEBI/HO/IMD/DOF2/P/CIR/2022/69 dated May 23, 2022, has notified norms for passive funds (Exchange Traded Funds (ETFs) and Index Funds) which are applicable effective from July 01, 2022. Also, the existing norms for Debt ETFs/ Index Funds issued vide SEBI Circular No. SEBI/HO/IMD/DF3/CIR/P/2019/147 dated November 29, 2019 are rescinded with effect from July 01, 2022.

Accordingly, pursuant to the above stated circular dated May 23, 2022, the existing provisions pertaining to index constitutions & methodology, single issuer limit, replication of index by the Scheme, charging of expenses towards investor education and awareness initiatives, disclosure of tracking error, etc. as currently stated in the SID & KIM stands replaced with the following provisions at all the relevant places:

#### **1. Index Constitution**

The AMC shall ensure the following regarding constitution of the index:

- i. Constituents of the index shall be aggregated at issuer level for the purpose of determining investment limits for single issuer, group, sector, etc.
- ii. Constituents of the index shall have a defined credit rating and defined maturity and the same shall be specified in the index methodology.
- iii. Rating of the constituents of the index shall be of investment grade and above.
- iv. Constituents of the index shall be periodically reviewed (at least on half-yearly basis).

#### **2. Single Issuer Limit:**

Single issuer limit shall not be applicable to the Scheme.

#### **3. Replication of the Index:**

The portfolio of the Scheme shall be considered to be replicating the index subject to following norms for permissible deviation in duration:

- a) Where the residual maturity of the portfolio is greater than 5 years: Either +/- 6 months or +/- 10% of duration, whichever is higher.
- b) Where the residual maturity of the portfolio is up to 5 years: Either +/- 3 months or +/- 10% of duration, whichever is higher.
- c) However, at no point of time, the residual maturity of any security forming part of the portfolio shall be beyond the target maturity date of the Scheme.

Further, any transactions undertaken in the Scheme in order to meet the redemption and subscription obligations shall be done while ensuring that post such transactions replication of the portfolio with the index is maintained at all points of time.

4. The Scheme shall disclose the tracking error based on past one year rolling data, on a daily basis, on the website of the AMC and AMFI.
5. At all points of time, positioning of the Scheme in the Potential Risk Class (PRC) matrix shall be in the same cell as that of positioning of the index in the PRC matrix.
6. The charges applicable for investor education and awareness initiatives from ETFs/ Index Funds shall be 1bps of daily net assets of the scheme.
7. All reference and contents of SEBI Circular no. SEBI/HO/IMD/DF3/CIR/P/2019/147 dated November 29, 2019 shall be replaced with that of SEBI Circular No. SEBI/HO/IMD/DOF2/P/CIR/2022/69 dated May 23, 2022.
8. In addition to the aforesaid changes, the following provisions pertaining to additional disclosures stands inserted in the SID and KIM of the Scheme:

- The AMC shall ensure that the updated constituents of the indices/Index and methodology is available on its website at all points of time. Further, the historical data with respect to constituents of the indices since inception of the Scheme shall also be disclosed on the website.

- Disclosure of tracking difference:

Along with tracking error, tracking difference i.e. the annualized difference of daily returns between the index and the NAV of the Scheme shall also be disclosed on the website of the AMC and AMFI, on a monthly basis, for tenures 1 year, 3 year, 5 year, 10 year and since the date of allotment of units.

Further, the annualized tracking difference averaged over one year period shall not exceed 1.25%. In case the average annualized tracking difference over one year period for the Scheme is higher than 1.25%, the same shall be brought to the notice of trustees with corrective actions taken by the AMC, if any.

- The AMC shall disclose the following on monthly basis:
    - i. Name and exposure to top 7 issuers and stocks respectively as a percentage of NAV of the scheme
    - ii. Name and exposure to top 7 groups as a percentage of NAV of the scheme.
    - iii. Name and exposure to top 4 sectors as a percentage of NAV of the scheme.
  - Change in constituents of the index, if any, shall be disclosed on the AMC website on the day of change.
9. Consequent to the revised provisions as per point 1 to 3 above, the existing index methodology as stated in the SID & KIM stands replaced with the following:

## **Index Methodology:**

### **Gilt**

#### **Security Selection:**

- 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 according to following waterfall approach:

- The proceeds from security redemption will be reinvested in the longest maturity outstanding security and maturing on or just before the index maturity date.
- In case a replacement in the form of outstanding security cannot be found for reinvestment then the proceeds from such redemption shall be reinvested in the remaining portfolio on the same date in the proportion of the existing weights.
- In case if there are no eligible securities, then the proceeds from such redemption shall be reinvested in a T-Bill maturing on or just before the index maturity date.
- If the last outstanding security (including T-Bill) in the index matures before the final index maturity date, all redemption proceeds shall be assumed to be re-invested in The Clearing Corporation of India Ltd.'s (CCIL) TREPS overnight rate for any subsequent days till the maturity of the index.

The relative weights of the Government securities will change due to price movement and will be reset during the 6 monthly rebalancing.

The effective date of the above rebalancing shall be first working day of the month.

### **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.
- The weights may drift due to price movement and due to cash flows accruing on account of coupon cash flows, and will be reset during rebalancing

**Rebalancing and Downgrade:**

The index constituents will be reviewed on semi-annual basis.

During the rebalancing, if any security of an issuer becomes eligible, it will be added to the index. Existing securities will not be excluded. Weight of the issuer will be divided among the securities. 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 according to following waterfall approach:

- The proceeds from security redemption will be reinvested in the longest maturity outstanding security issued by the same issuer (state in case of SDL and Bond/money market instrument in case of corporate bond) and maturing on or just before the index maturity date.
- In case a replacement in the form of outstanding security of the same issuer cannot be found for reinvestment then the proceeds from such redemption shall be reinvested in the remaining portfolio on the same date in the proportion of the existing weights.
- In case due to any reason it is not possible to meet the portfolio concentration norms as prescribed by SEBI, then the proceeds from such redemption shall be reinvested in a T-Bill maturing on or just before the index maturity date.
- If the last outstanding security (including T-Bill) in the index matures before the final index maturity date, all redemption proceeds shall be assumed to be re-invested in The Clearing Corporation of India Ltd.'s (CCIL) TREPS overnight rate for any subsequent days till the maturity of the index.

The effective date of the above rebalancing shall be first working day of the month.



Any index having maturity date on a weekend (Saturday and Sunday) or on a holiday, or on an unplanned market off, will mature on the next working day.

Investors are further requested to note that the aforementioned changes shall stand updated at all the relevant places in the SID and KIM of the Scheme and the same are effective from July 01, 2022. Further, certain other existing provisions in the SID & KIM shall also be updated to align the same with aforesaid requirements.

This Notice-cum-Addendum forms an integral part of the SID & KIM of the Scheme of HSBC Mutual Fund. **All the other provisions of the SID and KIM of the Scheme except as specifically modified herein above remain unchanged.**

For any queries or clarifications in this regard, please contact our Customer Service Number - 1800 200 2434 / 1800 258 2434 or write to us at [hsbcmf@camsonline.com](mailto:hsbcmf@camsonline.com). Investors calling from abroad may call on +91 44 39923900 to connect to our customer care center. You may also visit any of the Investor Service centers (ISC) of the Fund, details of which are available on our website [www.assetmanagement.hsbc.co.in](http://www.assetmanagement.hsbc.co.in).

**For & on behalf of HSBC Asset Management (India) Private Limited  
(Investment Manager to HSBC Mutual Fund)**

**Sd/-  
Authorised Signatory  
Mumbai, July 07, 2022**

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