Fund Note:

HSBC Gilt Fund

(An open ended debt scheme investing in government securities across maturity. A relatively high interest rate risk and relatively low credit risk.)

Current macroeconomic environment

FOMC kicks off in the power play

The FOMC commenced its rate easing cycle by reducing policy rates by 50 bps on Sep 18, 2024, instead of broad market expectations of a 25 bps cut. The Dot plot suggests another 50 bps of easing in 2024, 100 bps in 2025 and another 50 bps in 2026, taking the terminal rate to below 3%. The Fed Chair acknowledged that significant progress has been made on easing inflationary pressures and the Fed has greater confidence in inflation moving towards the target of 2%. What possibly could have tilted the FOMC towards 50 bps of easing is the weakening in labour market data. The Dot plot suggests that median expectations of unemployment rate in the US have increased from the June estimates, with unemployment rate expected to remain at 4.4% in 2024 and 2025 and cool down to 4.2% by 2027. While the Fed Chair indicated that the FOMC will remain data dependent and they will not follow any preset course, he also hinted that in the event of unexpected weakening in labour marker data or unanticipated fall in inflation, the FOMC will remain alert to act, thereby increasing the possibility of 50 bps cuts in the future as well.

With risks of global slowdown having escalated and with the Fed commencing its rate easing cycle by 50 bps, we continue to believe that the RBI is unlikely to remain immune from rate actions by global Central Banks, thereby implying that the possibility of rate easing by 75-100 bps in India has meaningfully increased.

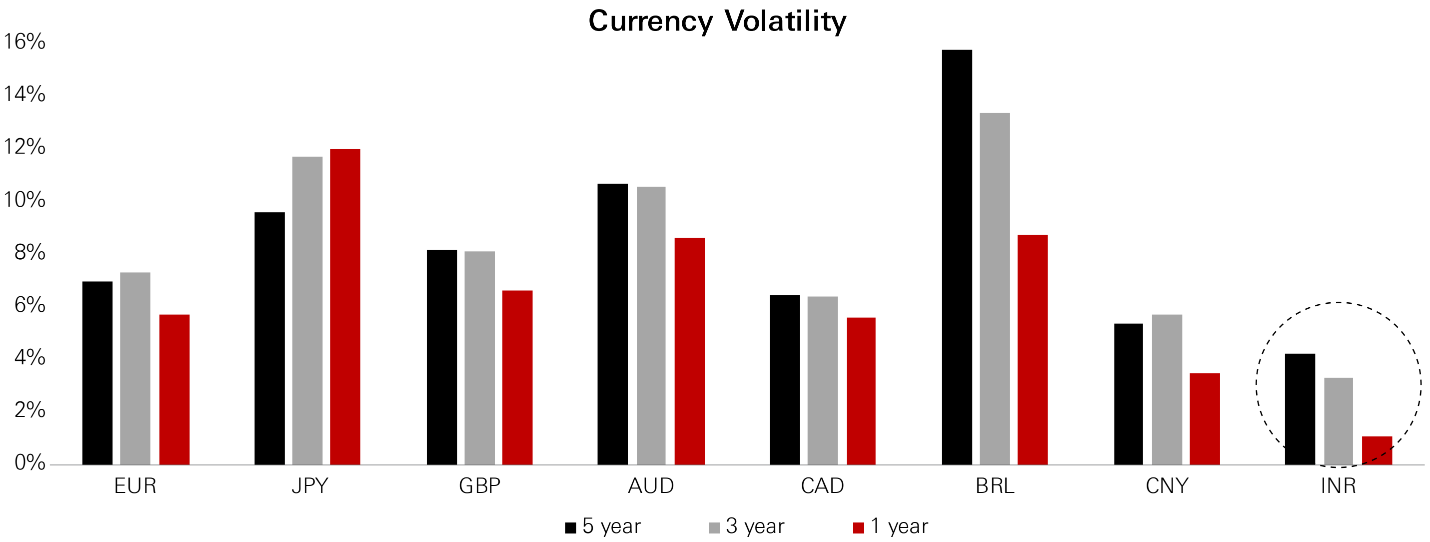
G-Sec Supply Demand dynamics continues to remain favourable

With improving fiscal dynamics in terms of Fiscal Deficit (Fiscal deficit estimated at 4.9% of GDP for FY2025 and to reach below 4.5% by FY2026, with Debt to GDP trending lower), India's macroeconomic scorecard remains strong. As per the Union Budget, gross borrowing through G-Sec for FY2025 is scheduled at INR 14.01 trn, with net borrowing at INR 11.63 trn. T-Bill borrowing was reduced by INR 1 trn (vs interim budget estimates), along with cash drawn down of INR 1.4 trn.

The AUM growth of EPFO, insurance companies and pension funds continue to remain strong, resulting in demand for longer Government securities. The recent proposed changes in the LCR norms for Banks may create further demand for HQLA assets. In addition, steady flows from FPIs into IGBs and growth of the mutual fund industry have further kept demand supported.

India continues to be a favoured destination for FPIs

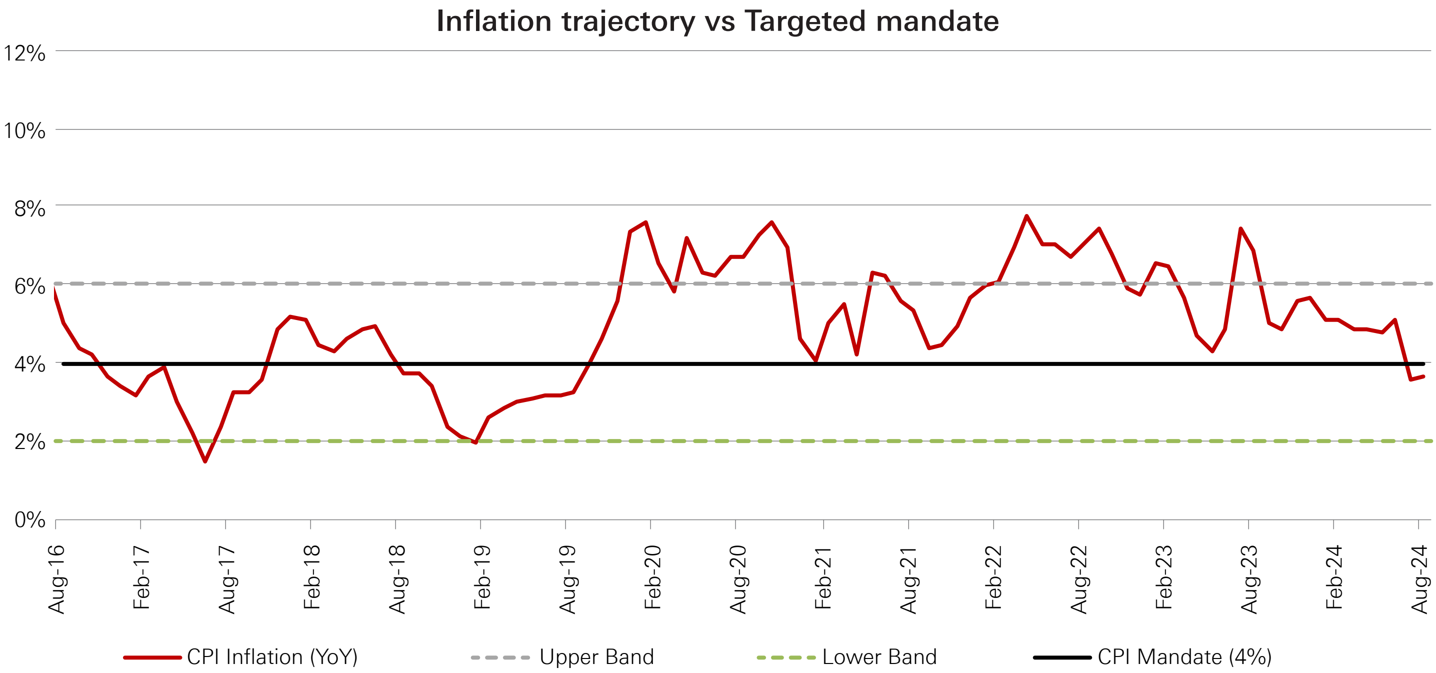
JP Morgan GBI EM index inclusion continues to keep FPI demand for IGBs at a steady USD 2-3 bn per month, with total FPI buying since the index announcement in September 2023 at ~USD 17 bn so far and another ~USD 16 bn of index flows projected to come over the next 7 months. Meanwhile, RBI has continued to build-up on the FX reserves (USD 689 bn, as of Sep 06, 2024) which allows RBI to intervene to keep Rupee stable and provide comfort to markets in case of any Dollar outflows. India's bond and currency markets continue to exhibit relatively low volatility versus other asset classes and peers.



Source: Bloomberg data as on 31 August 2024; HSBC MF research

Softening in inflation

Inflation prints have softened over the last couple of readings partly due to cooling off in vegetable prices and due to a favourable base effect. A normal monsoon along with higher kharif acreage for certain food items augers well for food inflation outlook, however, some pick up in vegetable prices has been seen recently, which will remain a monitorable. However, broad market expectations are for headline inflation for Q2 FY2025 to undershoot RBI's estimates by 30-40 bps. Core inflation continues to remain benign in spite of rise in telecom tariffs.



Source: Bloomberg data as on 13 September 2024; HSBC MF research

Market Outlook

We continue to have a positive outlook on interest rates, based on various favorable factors:

Impact on Bond Market

Banking Trends - Credit Deposit Ratio	Fiscal Policy CPI Inflation Trends Monetary Policy Systemic Liquidity	Global Interest Rate Environment Global Bond Index Inclusion Current Account Deficit & Balance Of Payments G-Sec Demand Supply (+LCR Changes) Real Rates

- Global markets turning positive, with various Central Banks commencing easing of policy rates
- Fed delivered an unexpected 50 bps rate cut to commence their rate easing cycle
- Reduced domestic Fiscal deficit number of 4.9%, which looks imminently achievable
- Strong index related inflows by FPIs
- Relatively low volatility of India's bond and currency markets versus other asset classes and peers
- Favorable G-Sec supply demand dynamics
- Possible incremental G-Sec purchase by Banks to increase HQLA assets
- Benign core inflation along with expectations of a better than normal monsoon resulting in undershooting of RBI's inflation estimates
- Soft signals by Government and RBI on liquidity

About HSBC Gilt Fund

An open ended debt scheme investing in government securities across maturity. A relatively high interest rate risk and relatively low credit risk

Portfolio Characteristics

- The fund aims to generate alpha over medium to long term through active duration management
- The fund invests predominantly in liquid Government securities (to enable positioning changes) across the yield curve and has relatively low credit risk
- Dynamic duration management endeavours to seize potential upsides when interest rates are expected to soften while also reducing risks in an uncertain environment

Fund Positioning

Given our positive duration bias on interest rates, currently, the fund is invested 70%-75% in greater than 10 year maturing securities and around 25% in the up to 10 year segment.

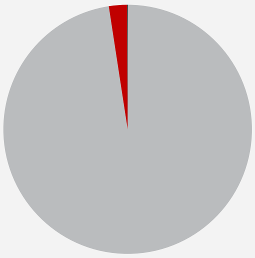
Source: HSBC MF. Portfolio as on Sep 15, 2024

Maturity Segment	% Holding of AUM
2033 - 2034	26%
2037	18%
2053 - 2064	55%

Quantitative Data

Average Maturity	22.16 years
Modified Duration	9.94 years
Macaulay Duration	10.28 years
Yield to Maturity	7.00%

Rating Portfolio



SOVEREIGN	**96.32%**
Reverse Repos /TREPS	**2.02%**
Net Current Assets	**1.65%**

Source: HSBC MF. Portfolio as on 15 September 2024

Why HSBC Gilt Fund?

While Government bond yields have rallied by about 25-30 bps over past few months, we believe there is further space for yields to still move lower and resultantly, we maintain our positive outlook on interest rates and a long duration bias across our portfolios. While swap markets are pricing in about 75 bps of rate cuts, the underlying G-Sec curve is still not pricing any significant rate easing. As and when the underlying curve starts pricing in policy easing, it will create room for yields to fall further.

Given the recent developments with the Fed easing rates by 50 bps, inflation expectations aligning with the target, expectations of weakening in labour market data along with risks of slowdown, we believe the RBI will be mindful of these developments and is unlikely to remain immune from US Fed actions, implying that possibility of rate easing by 75-100 bps has meaningfully increased.

With index inflows continuing in IGBs and steady growth of long only investor segment, the demand supply dynamics remain favorable. Hence, HSBC Gilt Fund is positioned with an aim to provide an opportunity to generate alpha over medium to long term for investors looking to play the duration theme.

Abbreviations:

FOMC: Federal Open Market Committee
GDP: Gross Domestic Product
G-Sec: Government Securities
AUM: Assets Under Management
EPFO: Employees' Provident Fund Organisation
LCR: Liquidity Coverage Ratio
HQLA: High Quality Liquid Assets
FPI: Foreign Portfolio Investment
IGB: Indian Government Bond
CPI: Consumer Price Index

Fund Category	Fund Manager	Benchmark[1,2]	Inception Date	AUM
Gilt Fund	Shriram Ramanathan and Mohd Asif Rizwi[3]	Nifty All Duration G-Sec Index	29 Mar 2000	Rs. 204.53 Cr

Source: HSBC MF. Portfolio as on 15 September 2024.

[1]As per clause 1.9 of the SEBI Master Circular dated 27 June 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 1 December 2021. [2]Fund's benchmark has changed with effect from 1 May 2022.

[3]Managing since from 1 May 2024, Please refer notice cum addendum dated 30 April 2024.

Investment Objective

To generate returns from a portfolio from investments in Government Securities. There is no assurance that the objective of the Scheme will be realised and the Scheme does not assure or guarantee any returns.

Fund Managers

Shriram Ramanathan
Effective 03 April 2017.
Total Schemes Managed - 11

Mohd Asif Rizwi
Effective 01 May 2024.
Total Schemes Managed - 5

Lump Sum Investment Performance

Fund / Benchmark (Value of Rs 10,000 invested)	1 Year		3 Year		5 Year		Since Inception		Inception Date
	Amount (Rs)	Returns (%)	Amount (Rs)	Returns (%)	Amount (Rs)	Returns (%)	Amount (Rs)	Returns (%)	
HSBC Gilt Fund - Direct Plan~~	10,964	9.64	11,911	6.00	13,750	6.57	26,759	8.80	01-Jan-13
Scheme Benchmark (NIFTY All Duration G-Sec Index)	10,973	9.73	12,013	6.31	13,799	6.64	23,155	7.46	
Additional Benchmark (CRISIL 10 year Gilt Index)	10,882	8.82	11,592	5.05	12,939	5.28	20,897	6.52	
HSBC Gilt Fund - Regular Plan[4]~~	10,832	8.32	11,487	4.73	12,944	5.29	62,738	7.80	29-Mar-00
Scheme Benchmark (NIFTY All Duration G-Sec Index)	10,973	9.73	12,013	6.31	13,799	6.64	NA	NA	
Additional Benchmark (CRISIL 10 year Gilt Index)	10,882	8.82	11,592	5.05	12,939	5.28	NA	NA	

Past performance may or may not be sustained in the future and is not indicative of future results. Returns on ₹10,000 are point-to-point returns for the specific time period, invested at the start of the period. The returns for the respective periods are provided as on last available NAV of August 2024 for the respective schemes. Returns for 1 year and above are Compounded Annualized. Returns for less than 1 year is Simple Annualized. Load is not taken into consideration for computation of performance. Different plans shall have a different expense structure. The expenses of the Direct Plan under the Scheme will be lower to the extent of the distribution expenses / commission charged to the Regular Plan.

As per clause 5.9.1 of the SEBI Master Circular dated June 27, 2024, the scheme returns vis-à-vis the benchmark return (Total Return Index) shall be disclosed are provided from the date of allotment of units.

Post merger performance of the surviving scheme, arising out of merger of schemes with similar features, is computed as per the provisions of clause 13.4 of the SEBI Master Circular dated June 27, 2024, on Disclosure of Performance of Schemes post-merger using the weighted average performance of both transferor and transferee schemes. In other cases, performance is computed using the Applicable NAV of the surviving/continuing schemes. ~~Face value Rs 10

Returns for Debt schemes has been calculated as on last business day NAV provided as on 15 September 2024.

[4]**HSBC Gilt Fund:** The launch date of the NIFTY All Duration G-Sec Index is Sep 03, 2001 and the same for CRISIL 10 year Gilt Index is September 01, 2001 whereas the inception date of the scheme is Mar 29, 2000. The corresponding benchmark returns since inception of the scheme not available. (niftyindices.com)

Source: HSBC Mutual Fund, data as on 31 August 2024.

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Scheme name	Potential Risk Class
HSBC Gilt Fund	

Potential Risk Class			
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		

HSBC Gilt Fund (An open ended debt scheme investing in government securities across maturity. A relatively high interest rate risk and relatively low credit risk.)

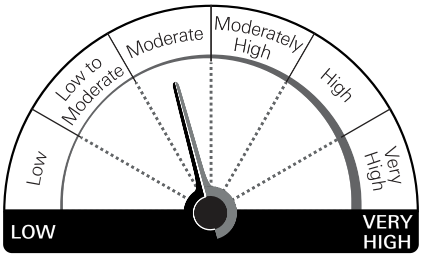
This product is suitable for investors who are seeking*:

- Generation of returns over medium to long term
- Investment in Government Securities.

(Benchmark Index: NIFTY All Duration G-Sec Index)

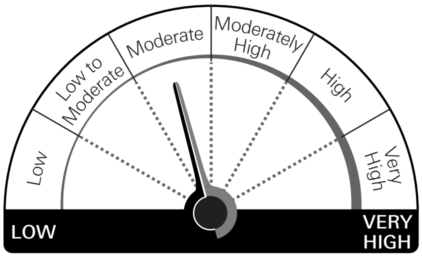
***Investors should consult their financial advisers if in doubt about whether the product is suitable for them.**

Riskometer of the Scheme



Investors understand that their principal will be at Moderate risk

Riskometer of the benchmark



Note on Risk-o-meters: Riskometer is as on 31 August 2024, 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

Past performance may or may not be sustained in the future and is not indicative of future results. Source: Bloomberg, HSBC Mutual Fund Research. Data as on 31 August 2024 or latest available.

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