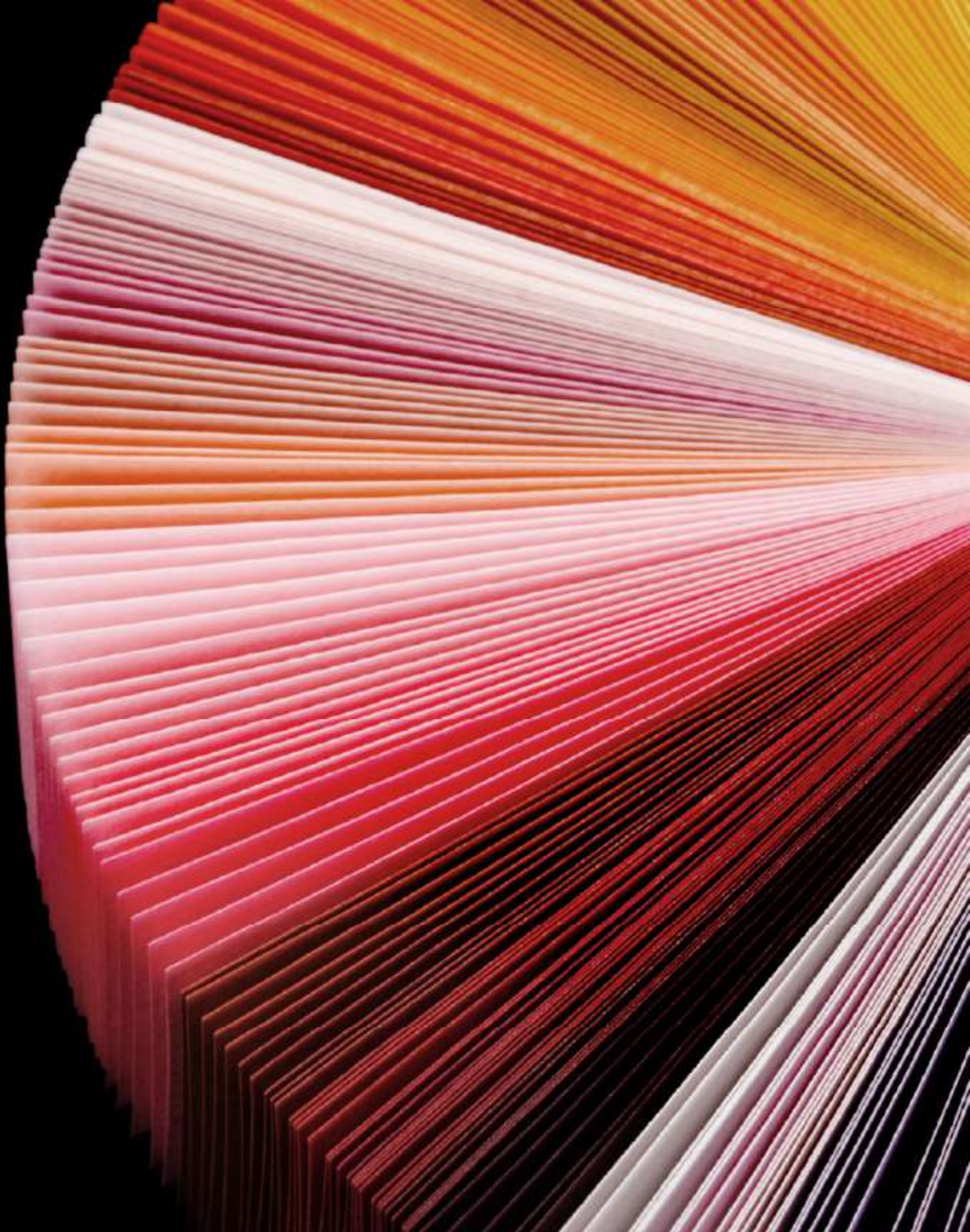
HSBC Low Duration Fund

Product Deck

May 2023

HSBC Mutual Fund

Fixed Income Market Update



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Fixed Income Top-down Macro economic factors

Impact on Bond markets

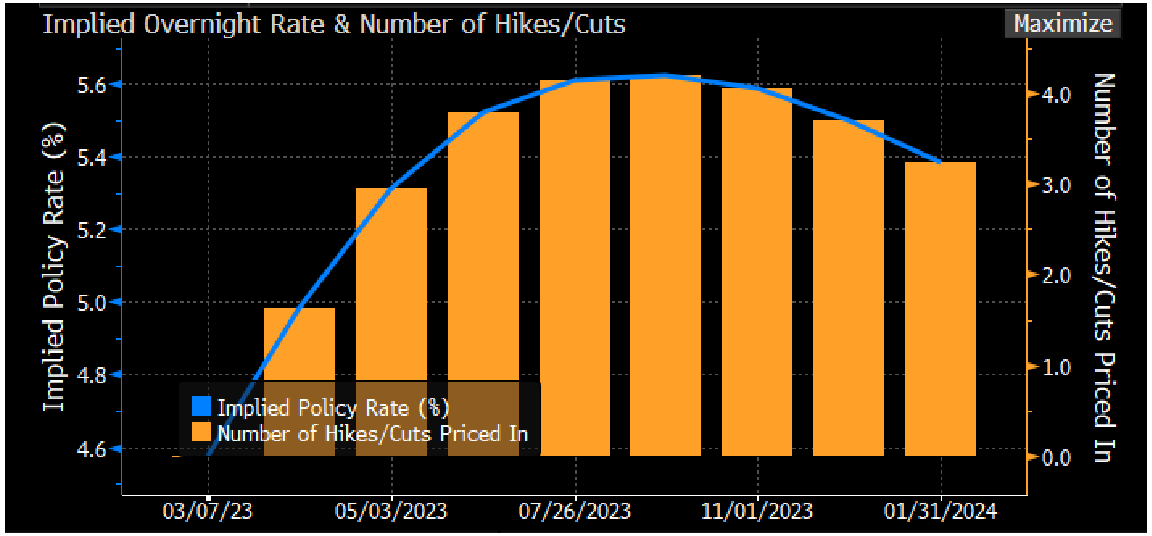
- Global interest rate environment
- Banking trends - Credit Deposit ratio
- Fiscal policy
- Real rates
- Current Account Deficit & Currency
- Monetary Policy
- Systemic Liquidity surplus
- CPI & Core Inflation trends
- G-Sec/SDL Demand Supply dynamics

- 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

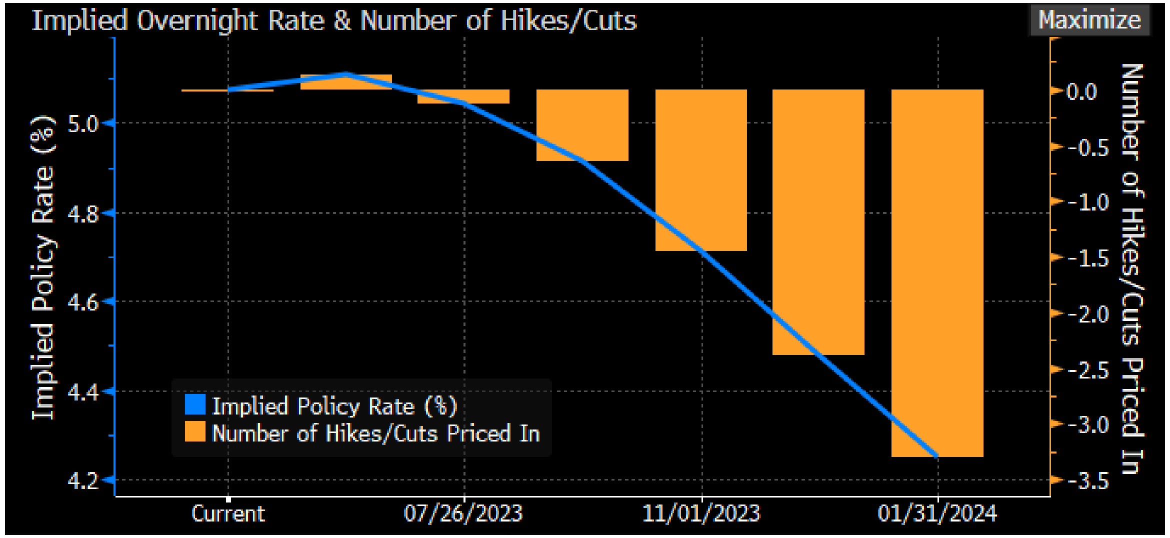
Source: Bloomberg, RBI
Data updated as on May 17, 2023

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

Source: Bloomberg
Data updated as on May 17, 2023

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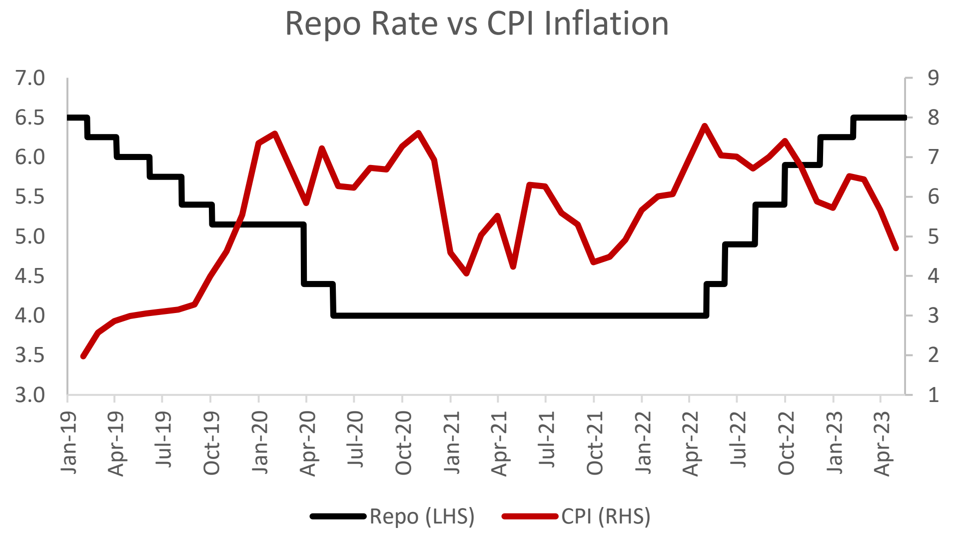
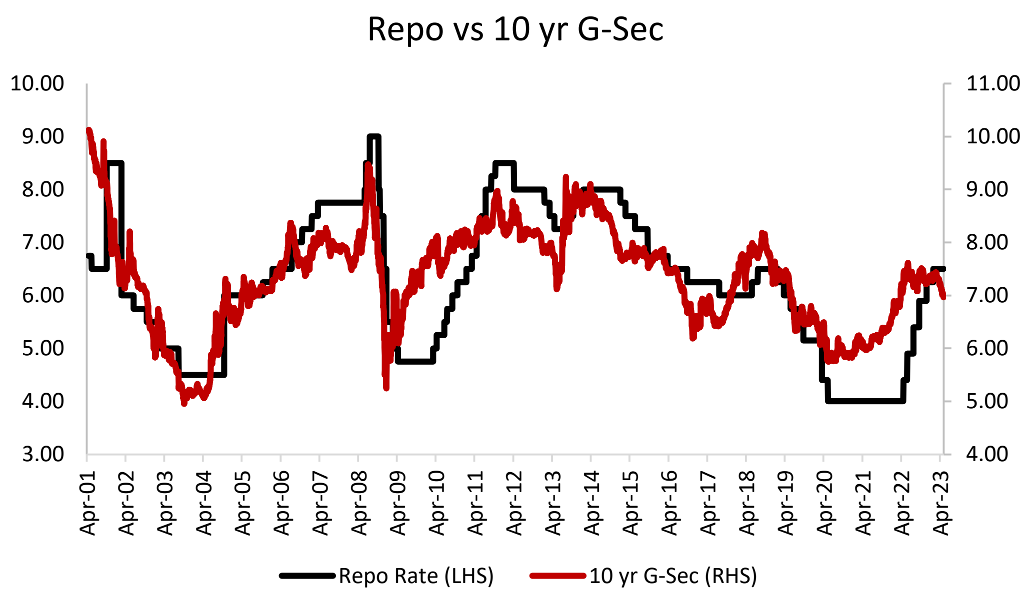
Policy rates have peaked

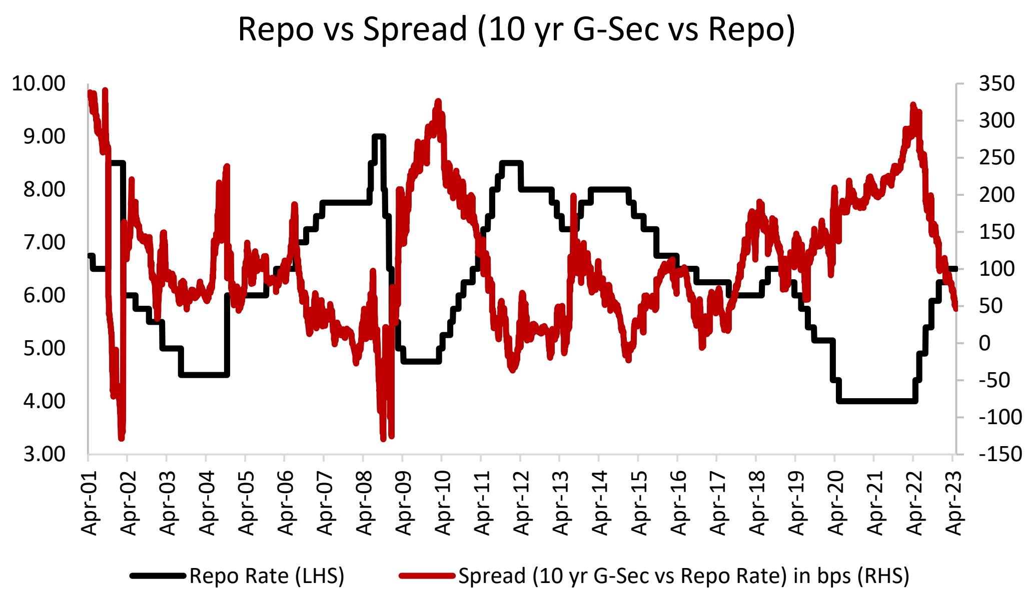
- Policy rates have peaked: RBI in all probability has reached terminal rate of 6.50% in it's April 2023 policy meeting
- Cooling off in inflation prints witnessed over the last few readings, with average print lower than RBI estimates
- Going forward, pressure on MPC to further tighten rates has reduced, 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

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

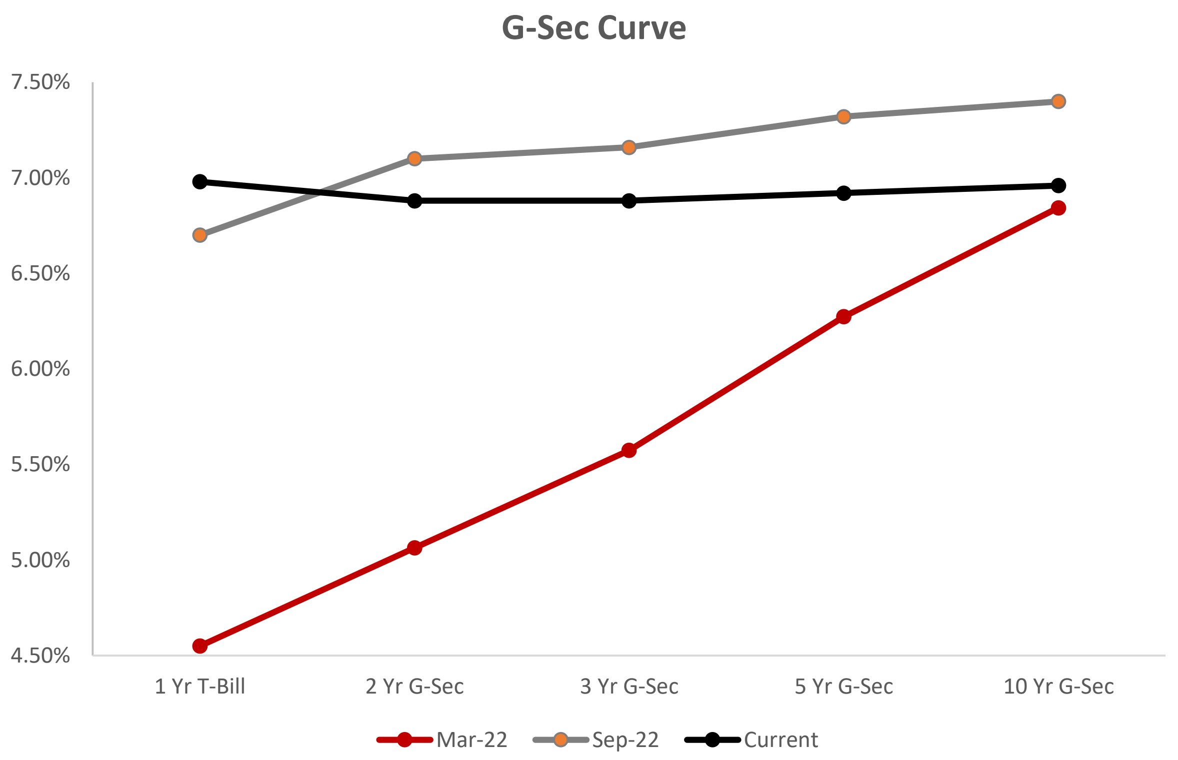
Although rate cuts might not be imminent, adding positions gradually might be better than timing entry points

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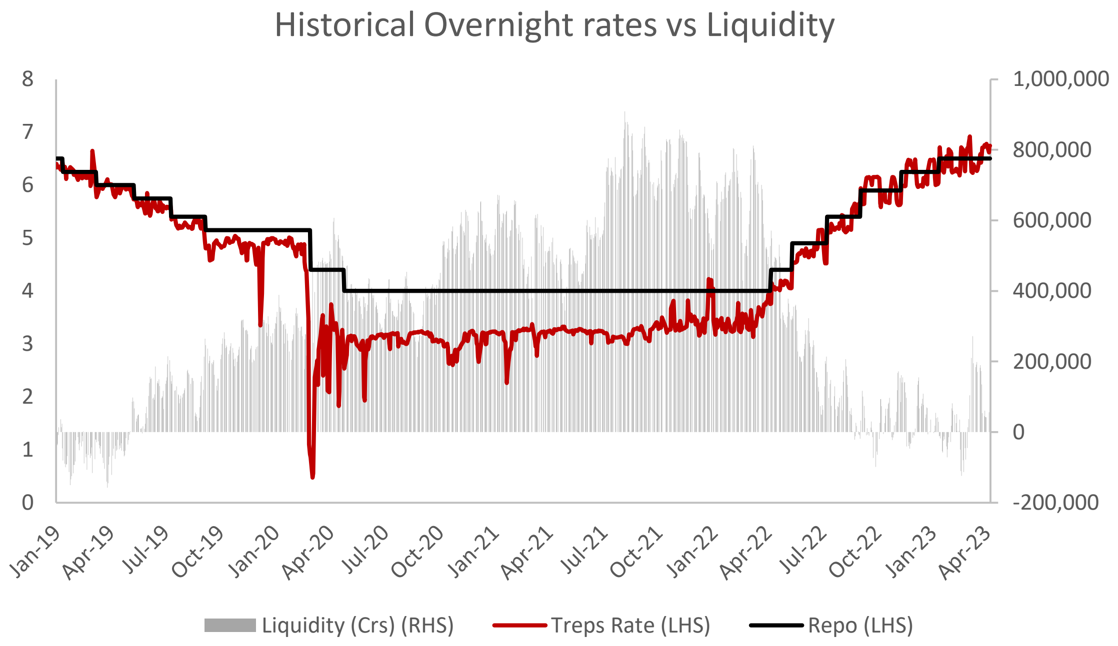
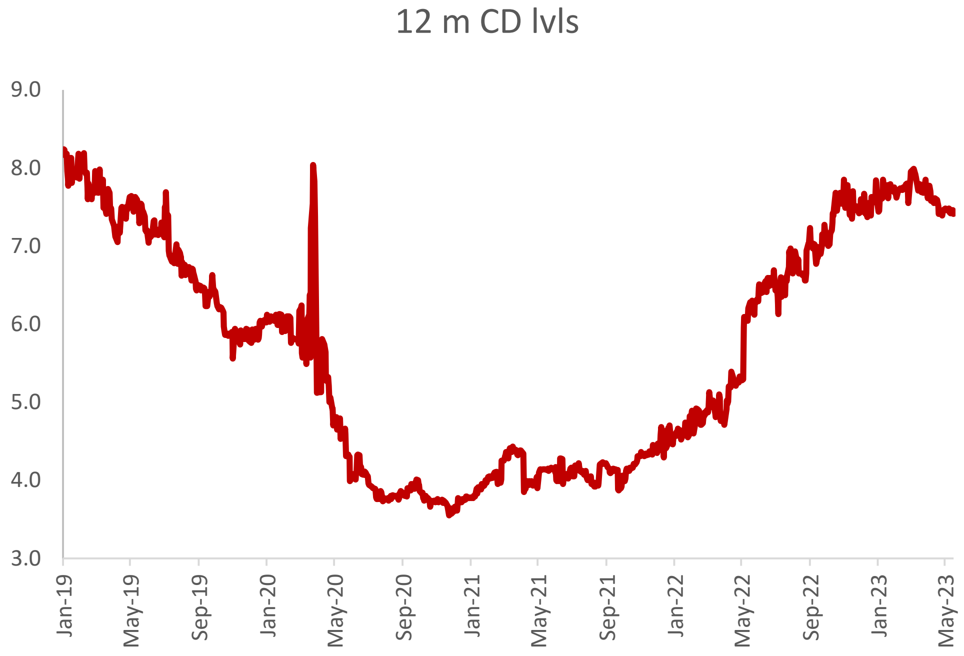
Source: Bloomberg, Valuation Reports
Data updated as on May 17, 2023

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

HSBC Mutual Fund

HSBC Low Duration Fund Investment Strategy

HSBC Low Duration Fund - An open ended low duration debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 6 months to 12 months. A relatively low interest rate risk and moderate credit risk.

Fund Strategy:

- Focus on generating returns through a yield-oriented and accrual based strategy
- Strong portfolio quality with a diversified mix of assets and adequate liquidity
- The fund has been positioned as an 85:15 rating mix strategy between AAA and non-AAA names
- Increased Duration over the last few months, with the rate hiking cycle probably at its end

Why HSBC Low Duration Fund?

- Appropriately positioned to provide a higher carry over the traditional money market category funds while maintaining adequate liquidity
- Rigorous credit selection process to spot mispriced credit opportunities.
- Given the portfolio quality, ample liquidity and carry over other funds, the fund is well positioned in the current market environment

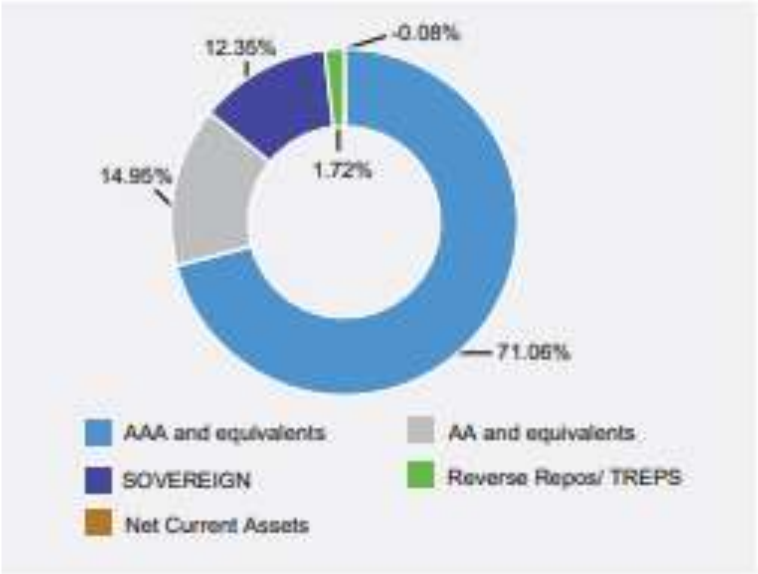
HSBC Low Duration Fund

Fund snapshot

Fund Category	Fund Manager	Benchmark [1, 2]	Inception Date	AUM
Low Duration	Shriram Ramanathan and Mahesh Chhabria	NIFTY Low Duration Debt Index B-I	04 Dec 2010	Rs. 442.47 Cr

HSBC Low Duration Fund	
Cash	1.64%
CP	0%
CD	37.93%
NCD	48.08%
G-Sec & T-Bill	12.35%
YTM (%)	7.48%
Avg Maturity (in Days)	13.11 months
Mod Duration (in Days)	8.81 months

Rating Profile

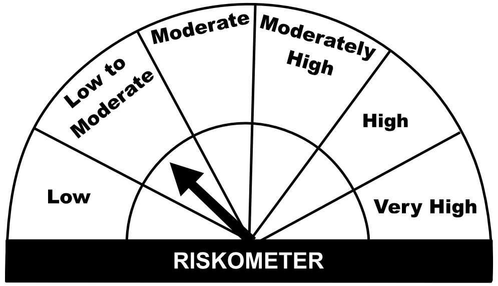


HSBC Mutual Fund

Source: HSBC Mutual Fund, Data as on April 30, 2023

Product Label

HSBC Low Duration Fund (Erstwhile L&T Low Duration Fund)



Investors understand that their principal will be at Low to Moderate risk

Low Duration Fund - An open ended low duration debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 6 months to 12 months (for details on Macaulay's Duration please refer to SID under the section "Asset Allocation Pattern"). A relatively low interest rate risk and moderate credit risk.

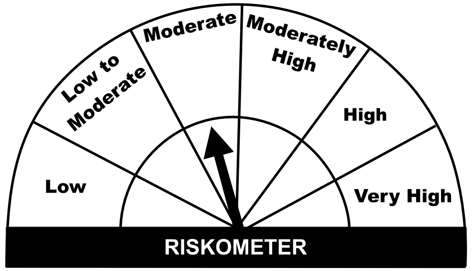
This product is suitable for investors who are seeking*:

- Liquidity over short term
- Investment in Debt / Money Market Instruments such that the Macaulay^ duration of the portfolio is between 6 months to 12 months

* Investors should consult their financial advisers if in doubt about whether the product is suitable for them.
^ The Macaulay duration is the weighted average term to maturity of the cash flows from a bond. The weight of each cash flow is determined by dividing the present value of the cash flow by the price.

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 Low Duration Debt Index B-I



Potential Risk Class (HSBC Low Duration Fund)

Credit Risk → Interest Rate Risk ↓	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
Relatively Low (Class I)		B-I	
Moderate (Class II)			
Relatively High (Class III)			

A Scheme with Relatively Low interest rate risk and Moderate credit risk.

HSBC Mutual Fund

Data as of 30 April 2023

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

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