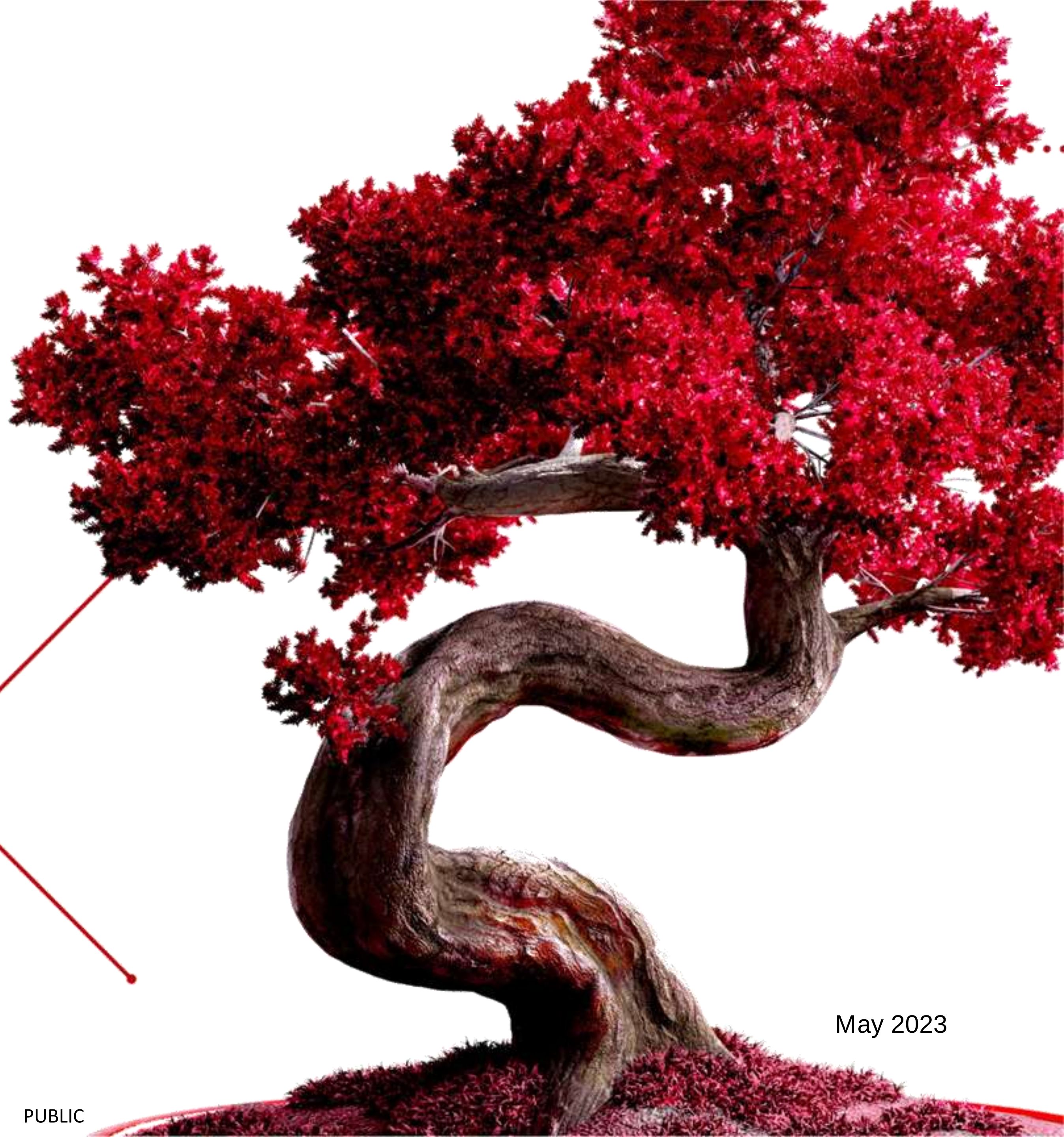
HSBC Money Market Fund

HSBC Mutual Fund



May 2023

HSBC Mutual Fund

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- Appendix
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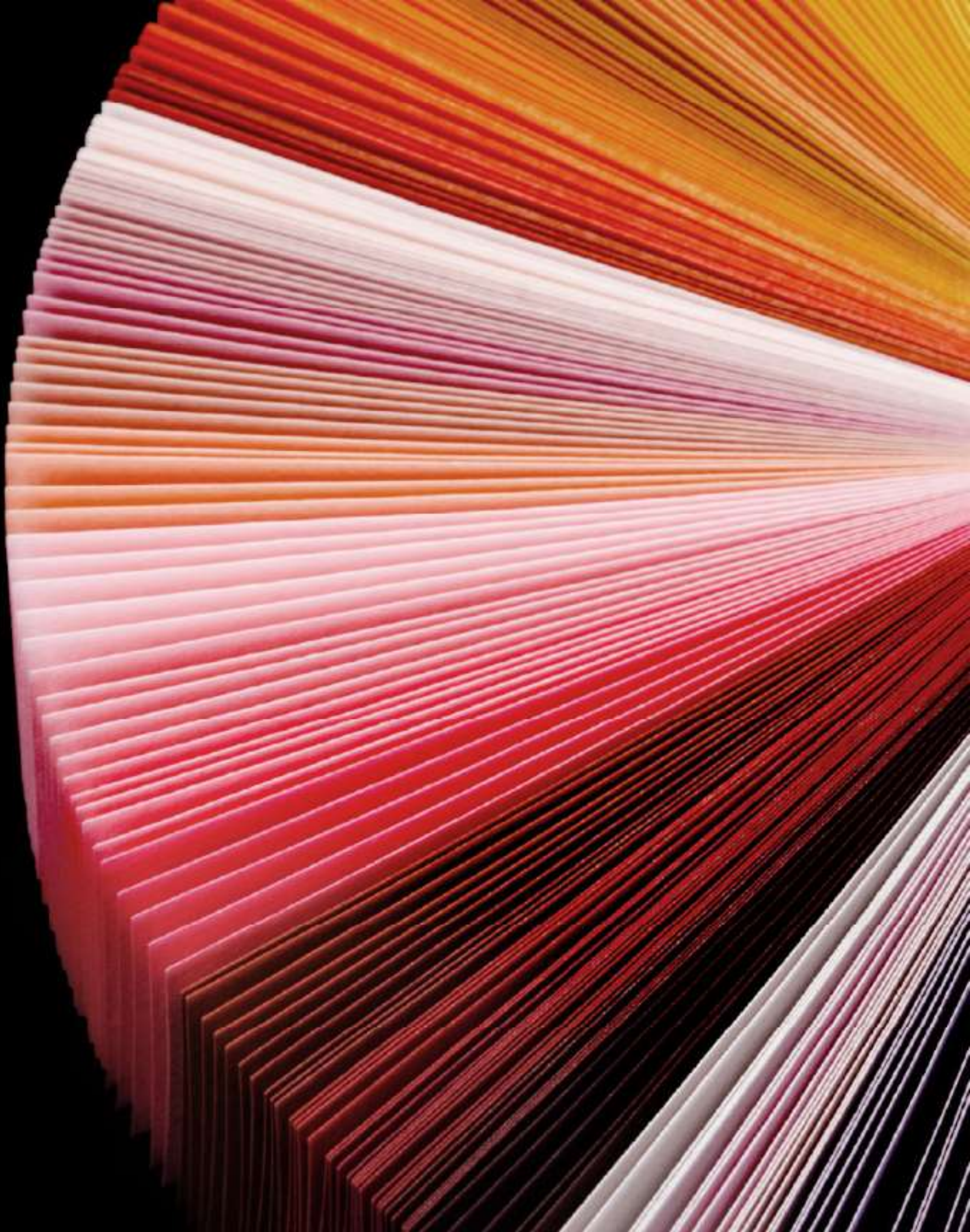
HSBC Mutual Fund

Fixed Income Market Outlook & Market Opportunity



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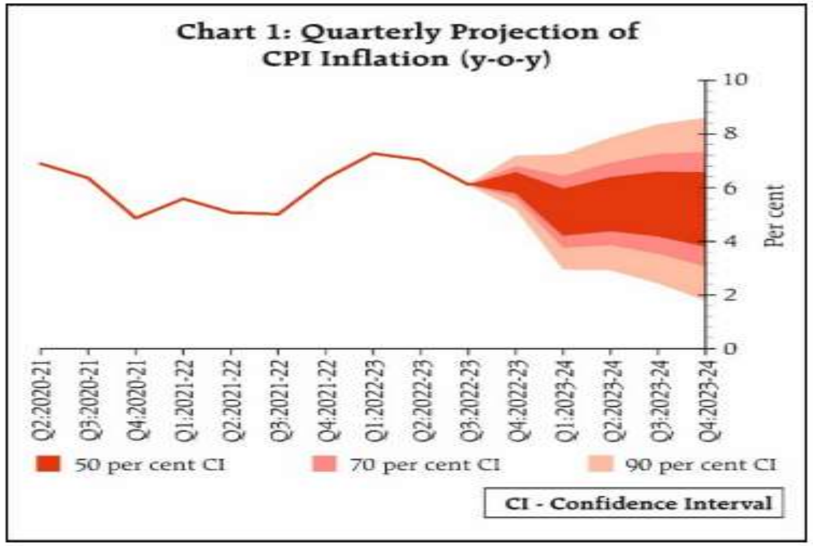
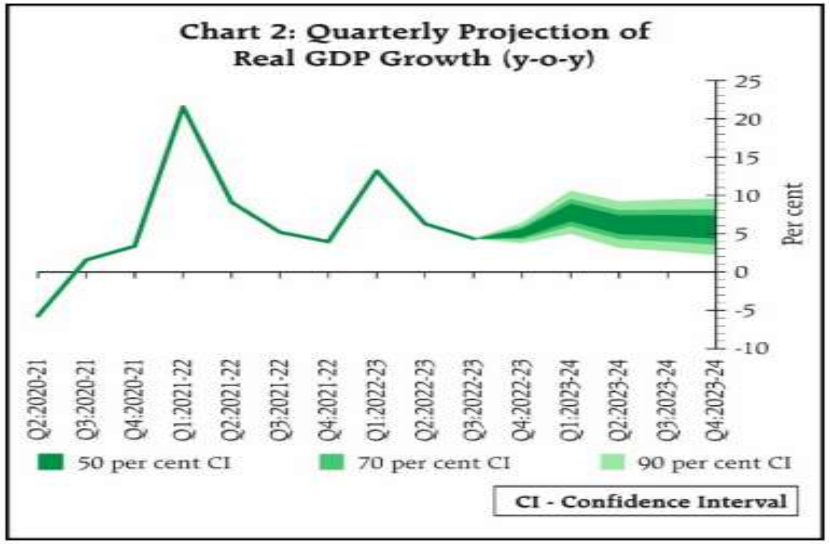
Fixed Income Market Outlook & Market Opportunity

- Policy rates have peaked: RBI in all probability has reached terminal rate of 6.50% in it's April 2023 policy meeting
- Systemic liquidity has flipped to neutral (from huge surplus): RBI has been successful in bringing down surplus system liquidity to near neutral levels; operating rate more closer to REPO rate
- Banking system credit – deposit trends: Mismatch has led to sharp spike in FD rates, and even more so in CD rates
- Attractiveness of JFM 2024: Various relative value indicators all point towards the JFM 2024 space being an attractive investment opportunity on the yield curve

Monetary Policy 6th April 2024

- MPC unanimously kept the repo rate unchanged at 6.50% vs market expectations of a 25 bps hike
- Slight tweak in the stance: " To remain focused on withdrawal of accommodation to ensure that inflation progressively aligns with the target, while supporting growth" 5:1
- CPI is projected at 5.2% of FY 24 – (Q1 at 5.1%, Q2 @ 5.4%, Q3 at 5.4%, Q4 at 5.2%) Risks evenly balanced
- GDP projected at 6.5% for FY24 – (Q1 at 7.8%, Q2 at 6.2%, Q3 at 6.1%, Q4 at 5.9%) Risks evenly balanced.
- MPC to keep a strong vigil on inflation. The current pause is to assess the 250 bps hike working through the system.





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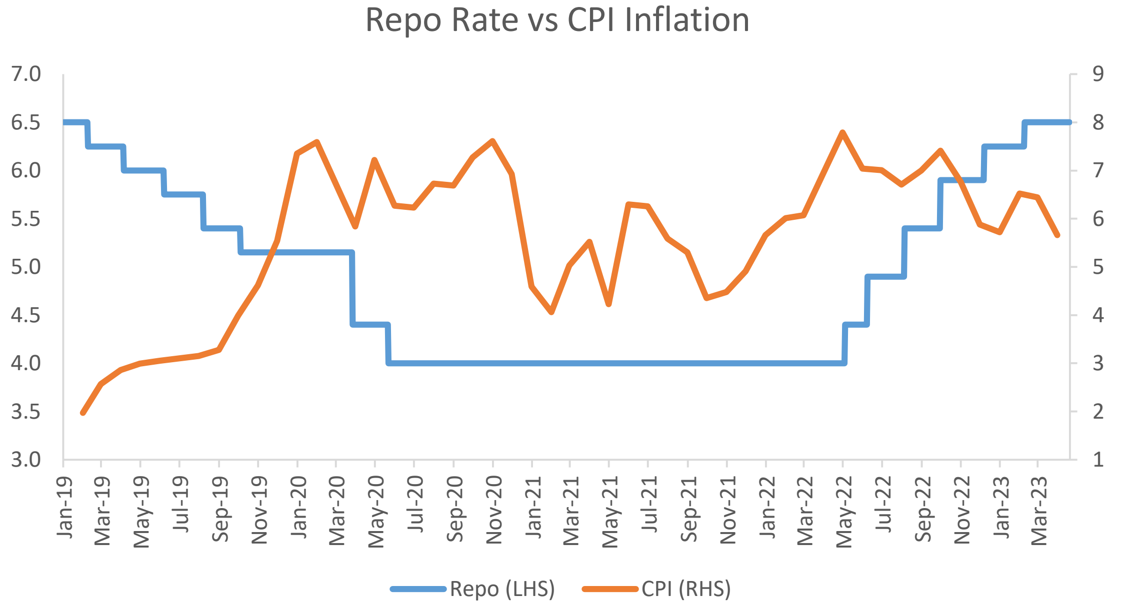
Source: RBI

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 10 months



Source: Bloomberg
Data updated as on 21 April 2023

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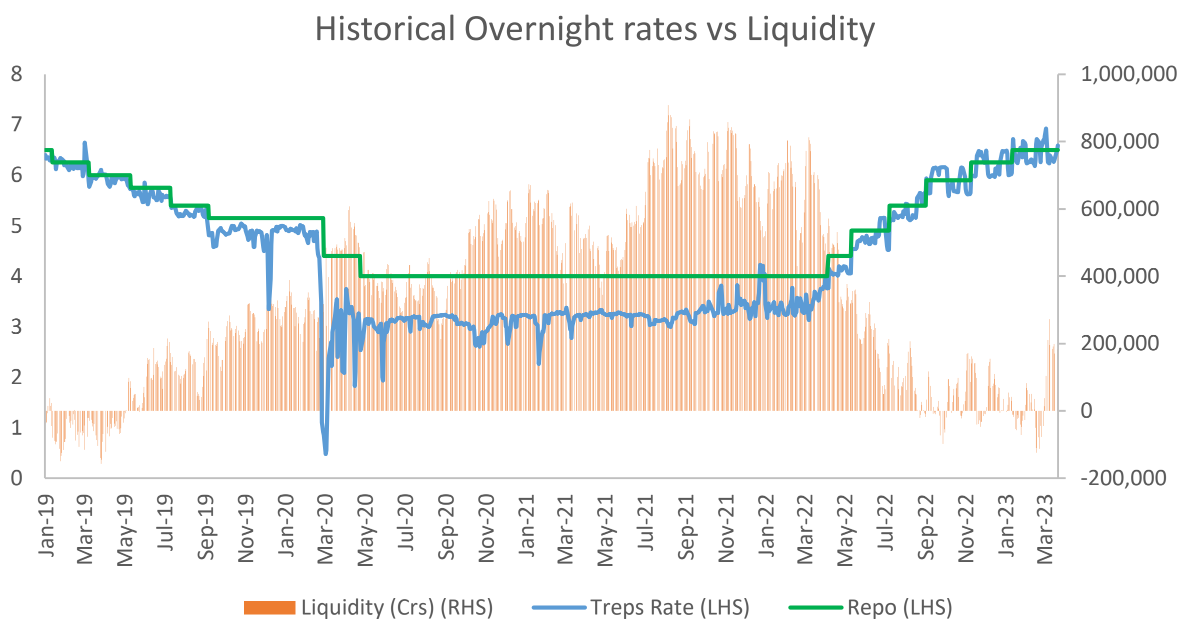
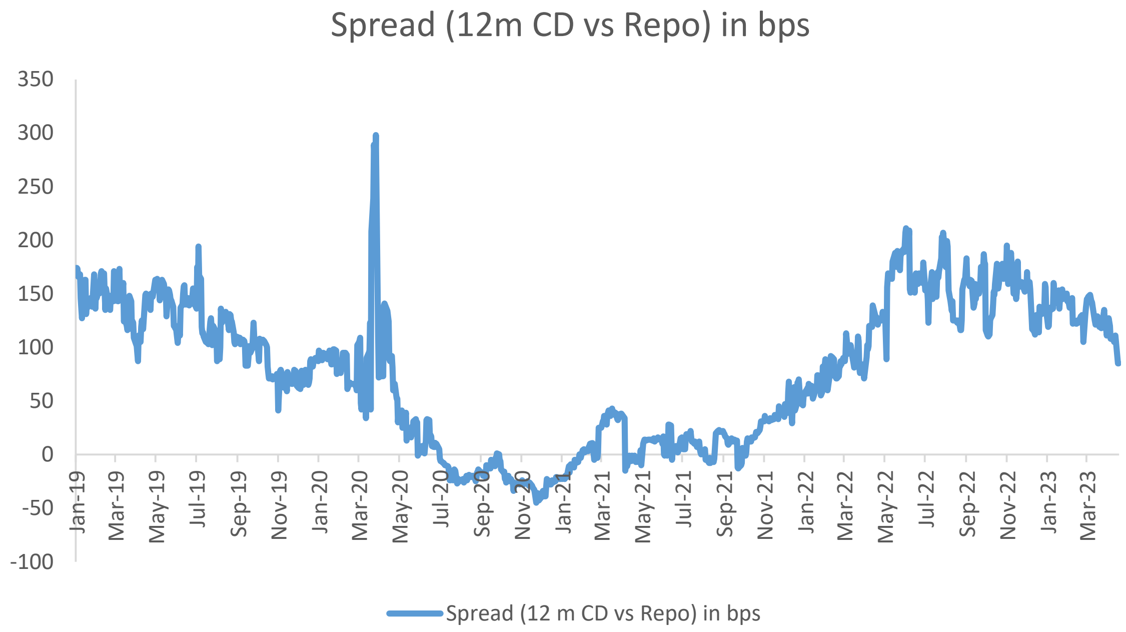
Systemic liquidity has flipped to neutral

- 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
- Spread of JFM 24 CDs vs Repo is at the higher range of the band
- With liquidity likely to remain neutral to slightly negative over the next few months, elevated spreads in the JFM 24 space continues to provide a good entry point





Source: Bloomberg
Data updated as on 21 April 2023

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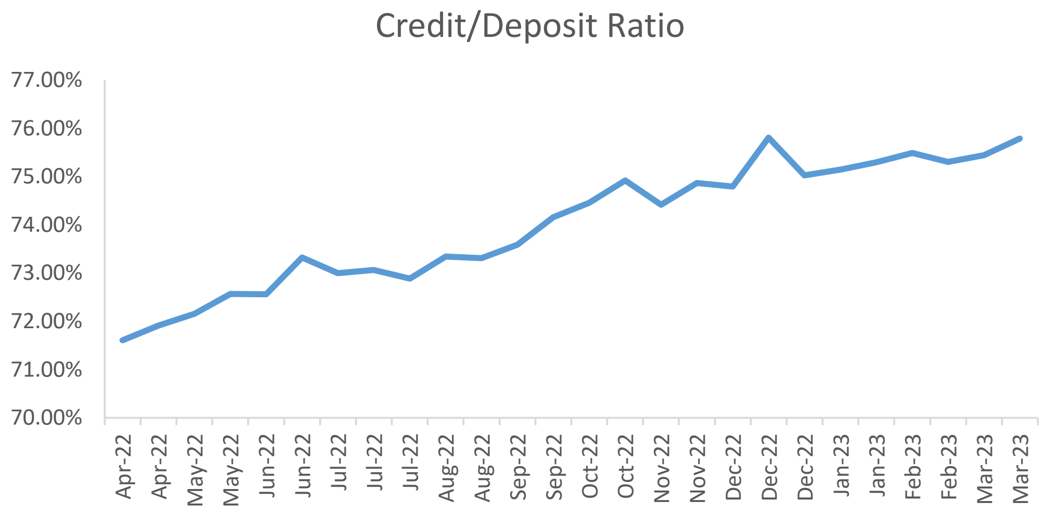
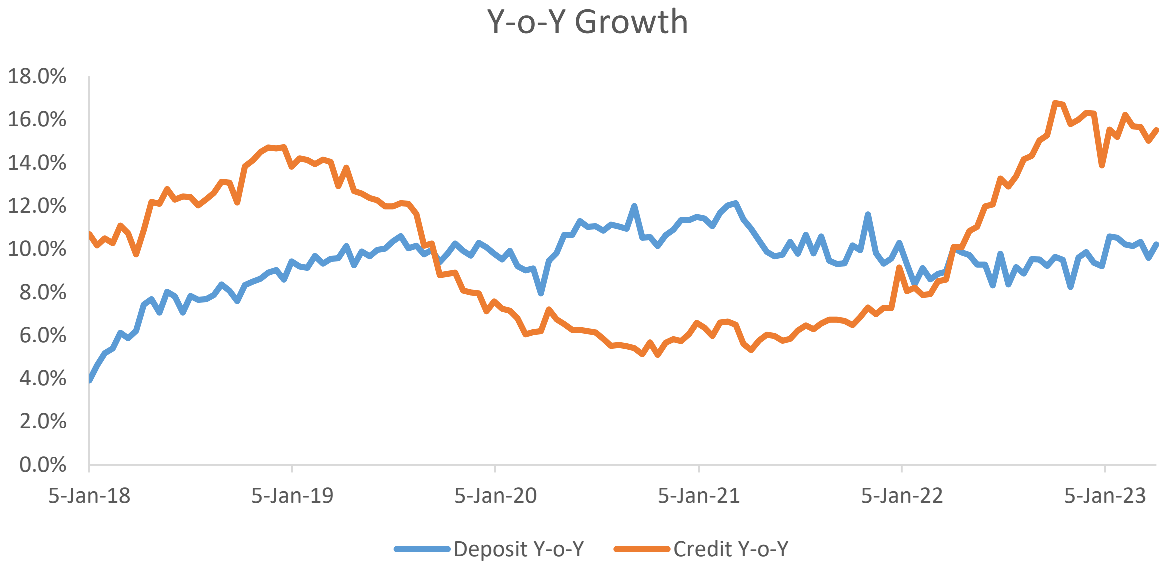
Banking Credit – Deposit trends

- Banking system credit – deposit trends: Mismatch has led to sharp spike in FD rates, and even more so in CD rates
- Gap between Incremental Credit to Deposit had widened to ~ INR 3.76 Lakh crs from 1st April 22 to 16th Dec 22; large Deposit mobilization efforts from Banks helped them bring down the gap to ~ INR 2.06 Lakh crs by end of March 23
- Credit growth has outpaced deposit growth over the last few year, and with liquidity at neutral levels, deposit rates have already seen a sharp move up
- Seasonally higher deposit mobilization and lower credit offtake during first half of financial year will make existing CDs attractive





Source: RBI

Data updated as on 31 March 2023

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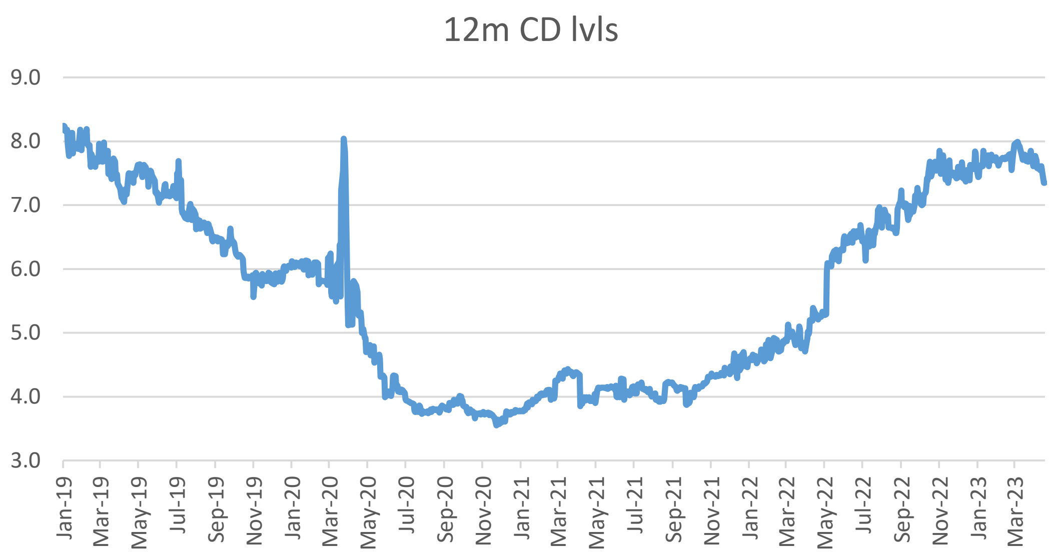
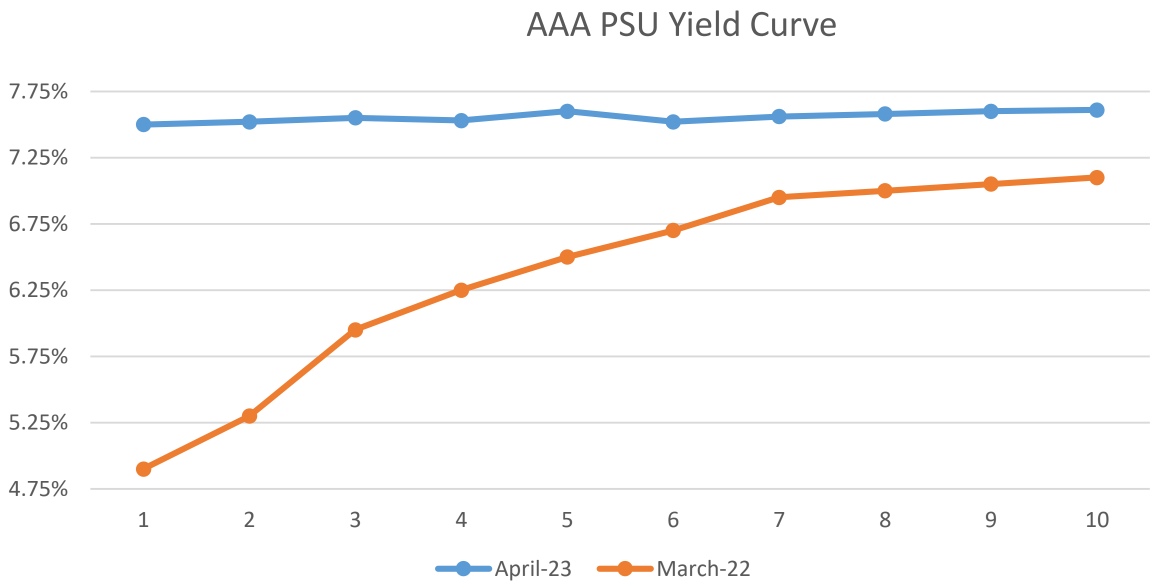
Attractiveness of JFM 24 CD/CPs

- Attractiveness of JFM 24 CD/CPs: Various relative value indicators all point towards the JFM 24 CD / CP space being an attractive investment opportunity on the yield curve
- The PSU yield curve from JFM 24 to 10 year is near flat
- JFM 24 PSU yields are at 7.35% while 10 year AAA PSU corporate bonds are at 7.55%





Source: Bloomberg, Valuation Reports
Data updated as on 21 April 2023

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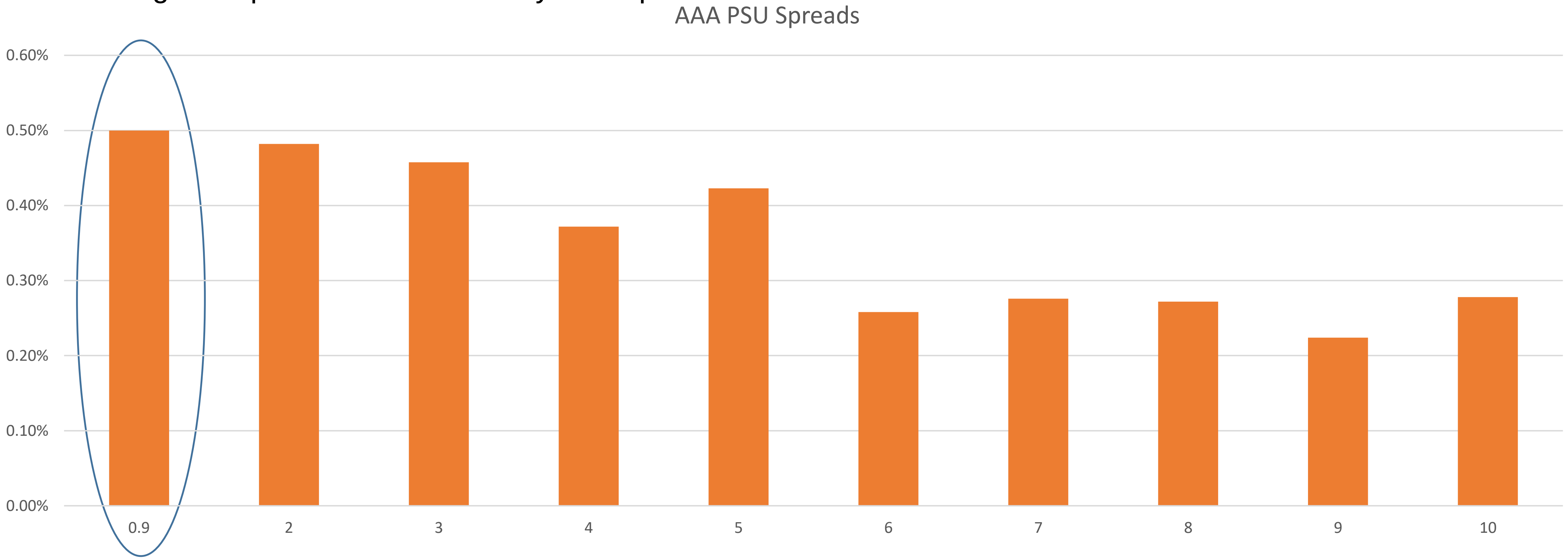
Attractiveness of JFM 24 CD/CPs

AAA PSU spreads over Sovereign – Attractive

- JFM 24 AAA PSU spreads over JFM 24 T-bills are at near 50 bps
- This is the highest spread available vs any other point on the curve



Source: Valuation Reports
Data updated as on 21 April 2023

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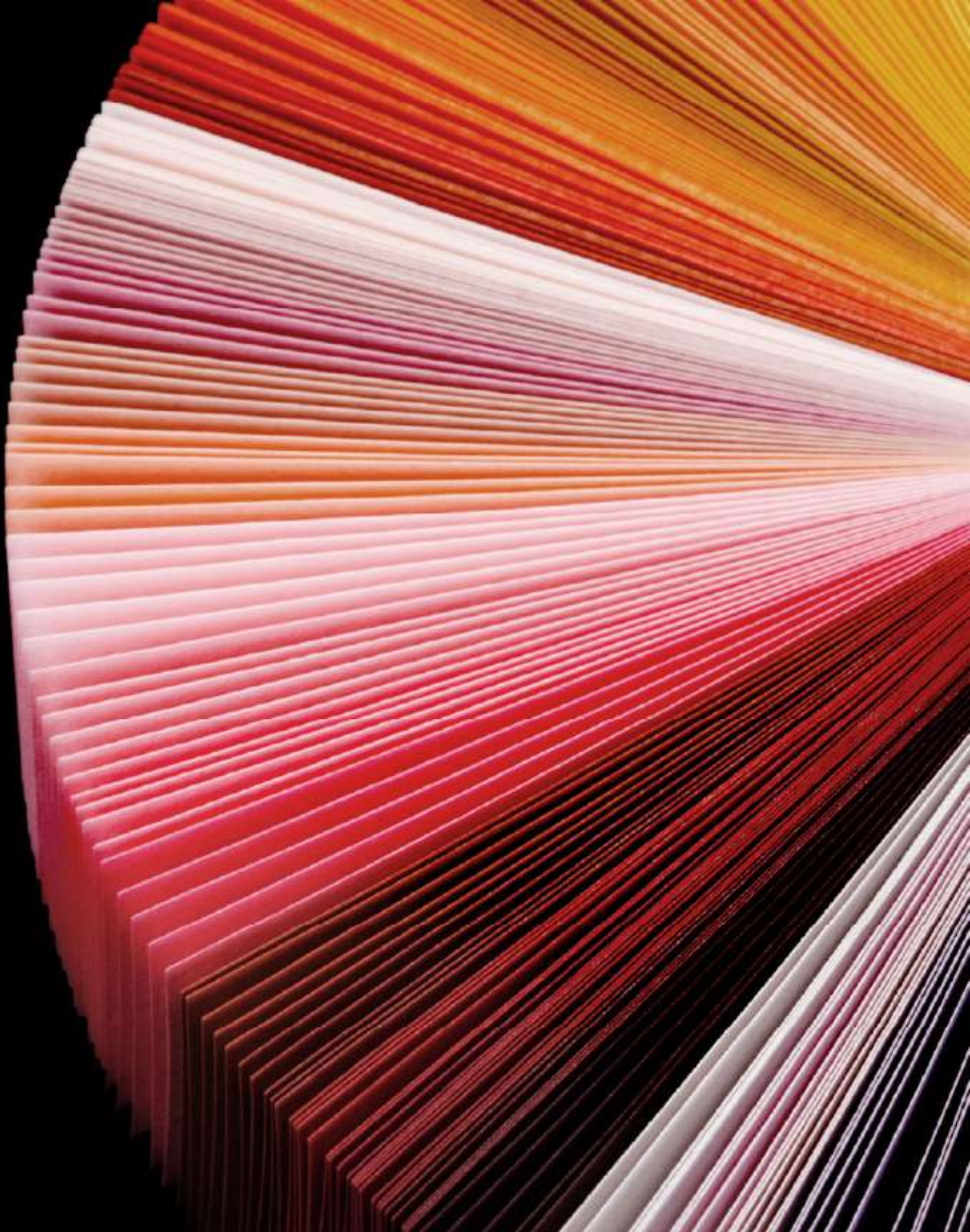
12 month Spread over Repo rate

- 12 month CD spread over Repo rate is reasonable: Historically 12 month CD spread over repo rate tops out well before Repo rate peaks.
- Current spread over repo has the potential to ease far more before the first cut by RBI in H1CY2024

HSBC Mutual Fund

Source: Bloomberg
Data updated as on 28th April , 2023

HSBC Money Market Fund – Product to utilize opportunity



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HSBC MUTUAL FUND

Some of the diverse options based on risk, return and investment horizon

RISK	Fund	YTM	Duration / Maturity*
Higher alpha products	*Credit Risk Funds*		Strategic
	Dynamic Bond Funds		Across durations
	GILT Funds		Across durations
	Med-Long Duration Funds		4 to 7 Years
	Medium Duration Funds		3 to 4 years
	Corporate Bond Funds		Across durations
	Target Maturity Index Funds		Across durations
Short maturity products	*Banking and PSU Debt Funds*		Across durations
	Short Duration Funds		1 to 3 Years
	Low Duration Funds		6 to 12 months
Liquid/Liquid plus products	*Money Market Funds*	*YTM – 7.36%*	Up to 12 months
	Ultra Short Duration Funds	*YTM – 7.26%*	3 to 6 Months
	Liquid Funds	*YTM – 7.10%*	Up to 91 days
	Overnight Funds	*YTM – 6.83%*	Up to 1 business day

RETURN

YTM as on 28 April 2023

Indicates Credit-Oriented products

HSBC Mutual Fund

HSBC Money Market Fund Investment Strategy

HSBC Money Market Fund plans to implement an investment strategy of investing predominantly in January, February and March 2024 maturity

- Our Overview:
  - ➢ Repo rate to peaked at 6.50% in April 2023
  - ➢ Liquidity to remain neutral to slightly negative
  - ➢ Credit/Deposit gap to narrow due to increase in deposit rates
  - ➢ Supply from Banks peak out in March 2023

- Strategy:
  - ➢ Invest in assets maturing between January to March 2024
  - ➢ Current YTM ~7.35% vs Liquid fund YTM ~7%
  - ➢ Rolldown Strategy to ride the steepness of money market curve
  - ➢ Investment horizon: 3-12 months

Scenario Analysis of JFM 2024

The Investment Strategy offers abundant cushion to absorb upward move in rates, while outperforming if rates remain stable or fall

Investing in a JFM 24 product with a holding period of 6 months vs investing in a 6 months product

JFM CD level: 7.35%
6 month CD level: 7.15%
Investment horizon: 6 months
Today referred to as 'T'
6 months hence referred to as 'T+6m'

6 month CD levels at T+6m	7.00%	7.15%	7.35%	7.50%	7.75%
Change in 6 month CD levels (T+6m vs T)	-0.35%	-0.20%	0.00%	0.15%	0.40%
Investment Return (6 months)	7.51%	7.45%	7.35%	7.28%	7.17%
6 month CD level (at T)	7.15%	7.15%	7.15%	7.15%	7.15%
Return difference	0.36%	0.30%	0.20%	0.13%	0.02%

- If 6 month rates stay at similar levels, the investment can generate returns of around ~7.45%
- The strategy offers enough cushion even if 6 month rates move up by up to 40 bps
- Investors with an investment horizon of 6-8 months can benefit from this roll-down strategy

Calculation is internal and for illustrative purpose only, Levels considered as of 21 April 2023
The above figures are hypothetical and actual figures may vary according to market scenarios

HSBC Mutual Fund

HSBC Money Market Fund

Fund snapshot and approach

Fund Category	Fund Manager	Benchmark [1, 2]	Inception Date	AUM
Money Market	Kapil Lal Punjabi and Shriram Ramanathan	Nifty Money Market Index B-I	10 Aug 2005	INR 855 Crs

Fund Strategy

- Investment in JFM 2024 Tbills, CDs and CPs
- Aims to selectively invest in higher yielding-good quality credits, while also maintaining adequate portfolio liquidity
- Focus on maintaining a high credit quality and highly liquid portfolio - investing only in names which are covered by internal credit research team

Why HSBC Money Market Fund?

- The scheme looks to position in various maturity buckets upto 1 year, based on relative value assessment of the money market yield curve
- Current strategy to invest majority of the portfolio in JFM 24 month CD/CP/Tbills, given the attractive yields in that segment

Issuer	Sum of % portfolio
AXIS BANK LTD	5.52%
BANK OF BARODA	5.60%
CANARA BANK	5.60%
CASH	1.69%
EXIM	5.48%
GOI	14.88%
HDFC BANK LTD	5.53%
HOUSING DEVELOPMENT FINANCE CORPORATION LTD	7.17%
ICICI BANK LTD	2.25%
Indian Bank	5.52%
KOTAK MAHINDRA BANK	5.52%
KOTAK MAHINDRA PRIME LIMITED	4.41%
LIC HOUSING FINANCE LIMITED	4.39%
National Bank for Agriculture and Rural Development	5.53%
Small Industries Development Bank of India	5.52%
STATE BANK OF INDIA	5.49%
Tata Capital Financial Services Limited	4.40%
Union Bank of India	5.53%
Grand Total	**100.00%**

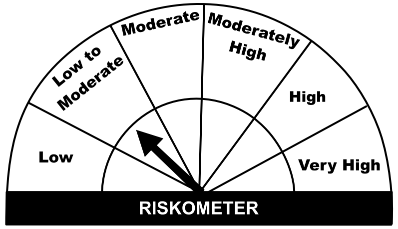
Money Market Fund	
AUM (INR Crs)	855
Cash	1.70%
CP	25.85%
CD	57.59%
NCD	0.00%
G-Sec & T-Bill	14.88%
YTM (%)	7.35%
Avg Maturity (in Days)	283 days
Mod Duration (in Days)	283 days

Source: Factsheet
Data updated as on 28 April 2023

HSBC Mutual Fund

Product Label

HSBC Money Market Fund (Erstwhile L&T Money Market Fund)



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

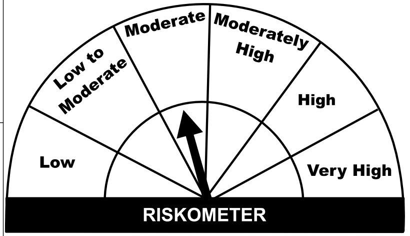
An open ended debt scheme investing in money market instruments. Relatively Low interest rate risk and Moderate credit risk.

This product is suitable for investors who are seeking*:

- Generation of regular income over short to medium term
- Investment in money market instruments

* 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 31 March 2023 as per latest available data, 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 Money Market Index B-I



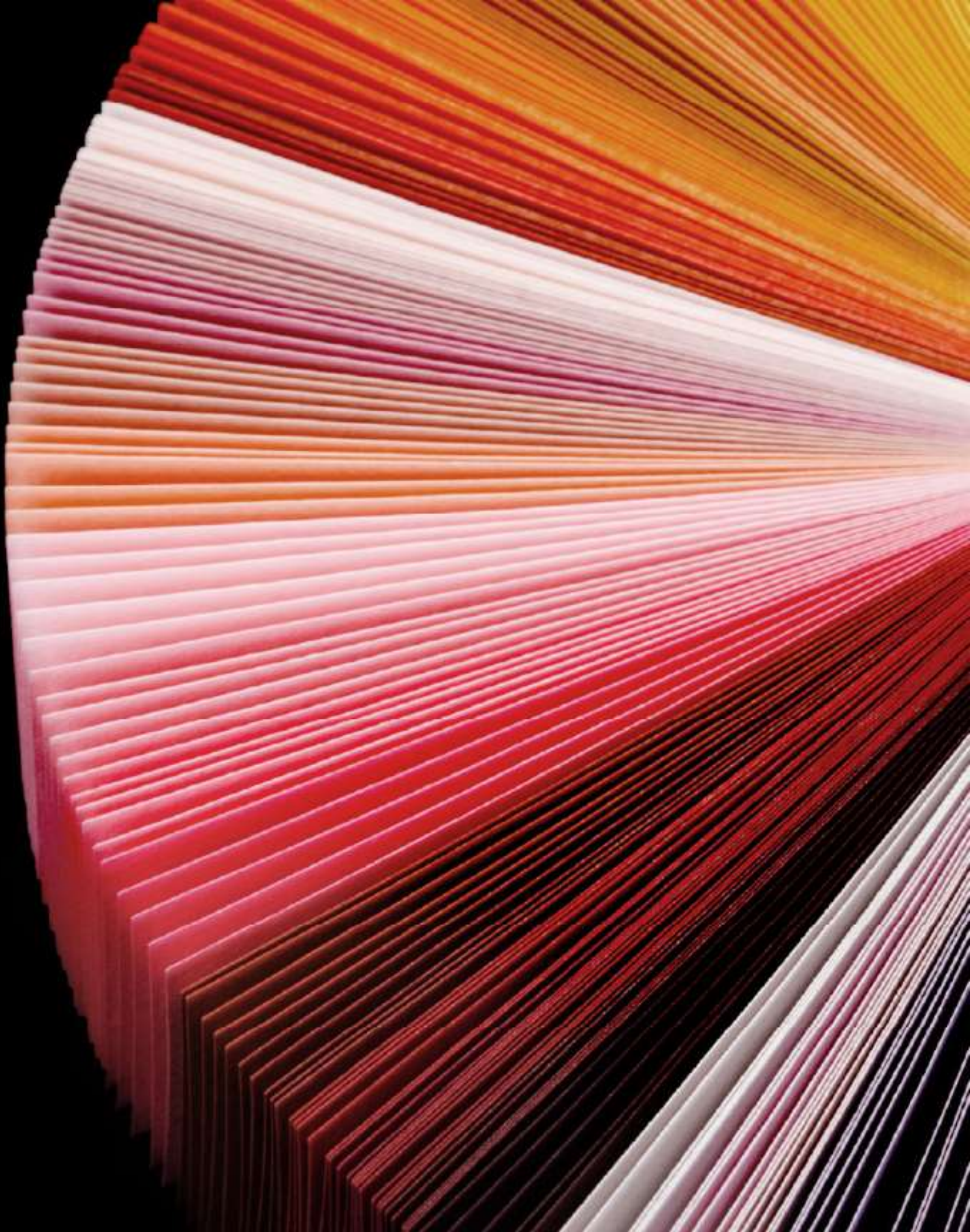
Potential Risk Class (HSBC Money Market Fund)			
Credit Risk → Interest Rate Risk ↓	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
Relatively Low (Class I)		B-I	
Moderate (Class II)			
Relatively High (Class III)			
A Scheme with Relatively Low interest rate risk and Moderate credit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

All data as of 30 April 2023

HSBC Mutual Fund

Appendix

HSBC's process driven investment approach– Liquidity Internal Investment Guidelines



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HSBC Mutual Fund - Critical size post LTIM merger

Reach, expertise and experience

HSBC Mutual Fund

- HSBC Mutual Fund is a brand used by HSBC Asset Management India (part of Global HSBC Asset Management company)
- Launched first fund in 2002
- Managers/sub-advisors of Indian equity and debt assets from more than 20 years
- Successful completion of integration of L&T Investment Management (LTIM) with HSBC AMC.
- One of the largest merger in the Indian Mutual Industry.
- A milestone in the growth journey of HSBC's wealth management strategy and commitment in India.

Assets under management / Advisory^
INR 1,06,913 Cr

MF AUM^
INR 87,120 Cr

Advisory (Offshore)
INR 19,793 Cr

Expertise in managing Indian equity and debt

On the ground presence combined with global oversight

International experience

Differentiated Product offerings

HSBC Mutual Fund

Data as of 30 April 2023, ^ Advisory (Offshore) - data as of 31 March 2023 as per latest available data, Any differences are due to rounding, HSBC Mutual Fund – HSBC MF, ^ Assets under management and Advisory of HSBC Asset Management India, Refer to SEBI format on AUM slide

Investment Philosophy

Guiding principles that drive Investment philosophy and approach

Investment mandate	Research based issuer selection	Robust risk management

• 'True to Label' - Ensures that schemes are managed in line with stated objective / investment strategy of the scheme ensuring strong long-term credibility	• Our strong in-house credit team has extensive expertise in credit research
	• 3 credit analysts with ~ average 14 year experience
	• Responsible for conducting independent, unbiased and timely analysis of credit metrics
		• To achieve optimal risk adjusted returns
		• Identifying and managing risks emanating from
		  • portfolio liquidity,
		  • portfolio concentration,
		  • credit quality,
		  • market risk and
		  • asset allocation

- Preserve long term credibility of funds across categories that has been built over many years and through cycles

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Investment process

A holistic risk approach to a well diversified portfolio

Interest Rates: Top Down

- Regular Assessment of Interest rate view based on macro parameters
- Proprietary Model incorporating scoring on fundamental and liquidity parameters for different category of funds
- Arriving at optimum duration, curve selection and instrument allocation based on quantitative and qualitative factors.

Portfolio Strategy

- Regular discussion on key economic and fundamental factors and portfolio positioning
- Weekly calls with regional counterparts to discuss market developments
- Monthly strategy calls with regional counterparts

Credit Evaluation: Bottom-Up

- Active tracking of a large number of issuers for potential investments
- Rigorous credit assessment of issuers by experienced research team
- Internal ST/LT rating approach to decide % and overall exposure limits
- Continuous monitoring industry, business and market dynamics

Source: HSBC Asset Management India. The information above is provided by and represents the opinions of HSBC Global Asset Management and is subject to change without notice

Investment Process - Internal Credit Ratings a key differentiating factor

Long-established, structured and comprehensive credit process

One of the pioneers in undertaking credit assessment through internal ratings; been using the same since 2012

Focus is on a bottom-up analytical approach for credit evaluation

Granular ratings assigned on both LT and ST rating scales which in-turn are used to determine the internal limits

Amidst challenging credit environment, up-to-date internal ratings and limits aid in managing and correctly pricing credit risks

Investment Process - Continuous Credit Monitoring through EWS alerts

- Credit team subjectively evaluates potential early warning signals (listed below) from various sources and those deemed material are communicated to the FM team immediately
  - Corporate governance/ litigations (such as auditor/board member resignations, legal cases)
  - News/ credit events/ market rumors
  - Sharp share price movements
  - Sharp yield/ spread movements
  - External rating actions

- Credit team may present a detailed update based on the materiality of the above alerts and accordingly, take a timely and appropriate rating action. The issuer limit may also be placed on hold for incremental exposure.
- On a weekly basis, a summary update of the alerts during the previous week are shared with the FM team.
- This monitoring is in addition to the regular issuer updates carried out based on ABC classification of issuers
- Such continuous and active monitoring approach effective in right pricing of the security.

Source: HSBC Mutuall Fund

HSBC Money Market Fund vs SEBI Regulations

Parameter	HSBC Investment Guidelines	Regulatory Investment Guidelines
Commercial Paper (CP) Allocation %	Up to 80%	No specific limits
Ratings (Minimum)	A1+	Investment grade
Single entity exposure	< = 7.5%	10% of a scheme of any one issuer which is rated above investment grade with a cap of 12% subject to the Board approval^
Single Group limit	< = 10%*	20% of a scheme of any one issuer group which is rated above investment grade with a cap of 25% subject to the Board approval

	Issuer in group	Group Limit
Aditya Birla Group	7.50%	15%
Axis Group	7.50%	15%
HDFC Group	7.50%	20%
ICICI Group	7.50%	15%
Kotak Group	7.50%	15%
L&T Group	7.50%	15%
Reliance Group	7.50%	15%
Tata Group	7.50%	20%

*HDFC and HDFC Bank Group combined

The above are the Internal limit

^ In terms of SEBI cir dated Nov November 29, 2022, i. A mutual fund scheme shall not invest more than: a. 10% of its NAV in debt and money market securities rated AAA; or b. 8% of its NAV in debt and money market securities rated AA; or c. 6% of its NAV in debt and money market securities rated A and below; issued by a single issuer.

The above investment limits may be extended by up to 2% of the NAV of the scheme with prior approval of the Board of Trustees and Board of Directors of the AMC, subject to compliance with the overall 12% limit specified in clause 1 of Seventh Schedule of MF Regulation.

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

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