HSBC Ultra Short Duration Fund (HUSDF)

Ultra Short Duration Fund – An open ended ultra-short term debt scheme investing in instruments such that the Macaulay Duration^ of the portfolio is between 3 months to 6 months. Please refer Page no. 9 of the SID for explanation on Macaulay duration. Relatively low interest rate risk and relatively low credit risk.

October 2022

Fund Details

Fund Manager
Kapil Punjabi

AUM (as on 31.10.22)
1048.52 Cr

Minimum Investment

Lumpsum	SIP	Additional Purchase
₹ 5,000	₹ 500	₹ 1,000

Average Maturity	3.13 Months
Modified Duration	3.10 Months
Macaulay Duration	3.13 Months
Yield to Maturity [1]	6.92%

Benchmark
CRISIL Ultra Short Duration Fund A-I Index[2, 3]

Inception Date
29 January 2020

Exit Load
NIL

Current Portfolio Strategy

- The entire Money-market curve is centric to the overnight funding cost. The overnight funding cost is now above the SDF rate of 5.65% given the increase in SDF and repo rates in August policy and tightening in liquidity conditions.
- The RBI's trajectory in terms of further rate hikes will determine the evolution of the money market and the short end of the yield curve. Average liquidity surplus has come down in the past few months given FX outflows and increase in currency in circulation in festival months. Steepness in the curve up to 1 yr remains high given expectations of further rate hikes.
- With RBI having front loaded rate hikes, and likely to take a calibrated approach going forward, there could be opportunities in terms of carry and roll-down. Overall, we remain neutral on duration in HSBC Ultra-Short Fund as we take a cautious approach while markets re-price rates given RBI's rate hiking cycle, while at the same time, utilizing opportunities to take advantage of steepness at the shorter end of the yield curve up to 1 year.

Investment Objective:

The investment objective of the scheme is to provide liquidity and generate reasonable returns with low volatility through investment in a portfolio comprising of debt & money market instruments. However, there is no assurance that the investment objective of the scheme will be achieved.

Product Note

[1] YTM Based on invested Amount ^ 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. Please refer to the page number 9 of the Scheme Document on which the concept of Macaulay's Duration has been explained
[2] SEBI vide its circular no. SEBI/HO/IMD/IMD-II DF3/P/CIR/2021/652 dated October 27, 2021, 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. Furthermore , the same is effective from 01 December 2021. [3] Fund's benchmark has changed with effect from April 01, 2022
The fund may undergo merger/consolidation along with changes to their fundamental attributes as per the notice published on 14 Oct '22. For more details visit our website page - https://www.assetmanagement.hsbc.co.in/en/mutual-funds/acquisition-of-lt-mutual-fund.

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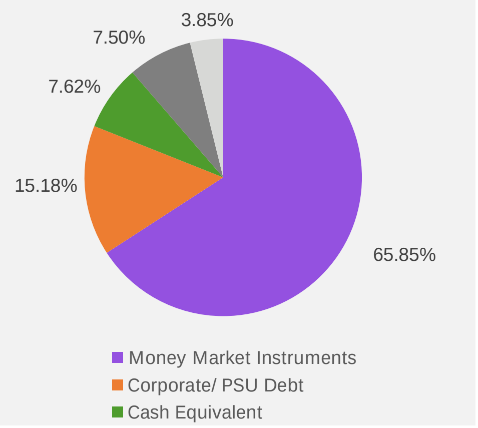
Date: November 2022

Portfolio

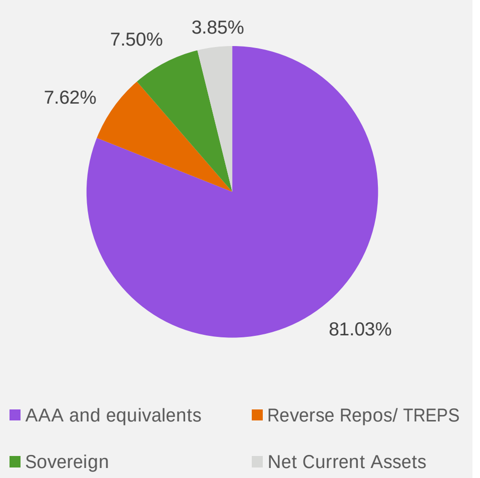
Issuer	Ratings	% to Net Assets
Corporate/ PSU Debt		
Corporate Bonds / Debentures		15.18%
L & T Finance Ltd. Top 10	CRISIL AAA	10.16%
LIC Housing Finance Limited Top 10	CRISIL AAA	5.02%
Money Market Instruments		
Certificate of Deposit		49.51%
Axis Bank Limited Top 10	CRISIL A1+	9.48%
Bank of Baroda Top 10	Fitch A1+	9.35%
Indian Bank Top 10	ICRAA1+	5.66%
Canara Bank Top 10	CRISIL A1+	5.61%
HDFC Bank Limited Top 10	CARE A1+	5.41%
National Bank for Agriculture & Rural Development Top 10	CRISIL A1+	8.44%
Small Industries Development Bank of India	CARE A1+	4.66%
Export Import Bank of India	CRISIL A1+	0.90%
Commercial Paper		16.34%
Kotak Securities Limited Top 10	CRISIL A1+	9.34%
Bajaj Housing Finance Limited	CRISIL A1+	4.67%
Small Industries Development Bank of India	CRISIL A1+	2.33%
Treasury Bill		7.50%
182 DAYS T-BILL 09FEB23	SOVEREIGN	7.50%
Cash Equivalent		11.47%
TREPS*		2.79%
Reverse Repos		4.83%
Net Current Assets		3.85%
Total Net Assets as on 31-OCTOBER-2022		100.00%

*TREPS : Tri-Party Repo

Asset Allocation



Rating Portfolio



HSBC Ultra Short Duration Fund has invested ~81.03% in AAA and Equivalents. while ~7.62% held in Sovereign.

Rationale on existing credit exposures*

1. L&T Finance Ltd: L&T Finance is the flag ship NBFC of the L&T group with a diversified lending model. The key strength emerges from strategic importance to the L&T group as a whole and expected support from ultimate parent L&T. Liquidity is very strong and asset quality is manageable. While recent past performance of the industry has been under stress, this entity has been able to manage well with strong liquidity support. While operating environment will be challenging, company seems to be faring better than many peers in the sector given its diversified book and parentage.

2. Axis Bank Ltd: It is the third-largest private sector bank with a diverse business mix as reflected in a well-spread out loan portfolio with more than half of it being granular retail. Capitalisation for Axis Bank is at healthy levels and the bank has demonstrated its ability to raise equity capital from the markets, both debt and equity side. Overall, the bank's large size, proven ability to raise capital and good resource profile are the key positive drivers for investing in the bank. In addition, large size also lends the bank its systemic importance which is an overriding comfort.

3. Bank of Baroda: Bank of Baroda is among India's five largest banks by asset size with total assets of Rs 13,36,380 crore as on September 30, 2022 (Rs 12,77,999 crore as on March 31, 2022). On the deposits front too, the bank has maintained a substantial share with Rs 10,90,171 crores of deposits as of September 30, 2022. As on June 30, 2022, the bank's gross advances stood at Rs 8,73,496 crore, up 19% Y-o-Y, of which 82% were domestic while the remaining 18% were international loans. On the asset quality front, the bank reported Gross non-performing assets (GNPA) of 5.31% as on September 30, 2022 from 6.61% as on March 31, 2022 despite the challenging environment.

4. Kotak Securities Ltd: The strength of the entity is derived from being a key subsidiary of the Kotak Bank and the broking entity in the group. In addition, the entity has a very strong standalone business and financial profile. Over the last 15 years' entity has seen growth and stability which translates that entity has witnessed several business cycles. Overall, the strength of its standalone profile and the backing of the group, standout as clear positives. In addition, the company has fared well through the recent pandemic related volatility without witnessing any stress in the margin funding portfolio which emphasizes the strength of the processes of the entity.

5. National Bank for Agriculture and Rural Development: Incorporated in 1982 under an Act of the Indian Parliament, NABARD is governed by the NABARD Act, 1981. NABARD shares supervisory functions with RBI in respect of co-operative banks (other than urban and primary co-operative banks) and regional rural banks (RRBs). The bank is the apex refinancing agency providing short- and long-term refinance to state cooperative agricultural and rural development banks, state cooperative banks, RRBs, commercial banks, and other financial institutions approved by RBI to augment credit flow for production and investment purposes in the agriculture and rural sectors.

6. Small Industries Development Bank of India: Small Industries Development Bank of India (SIDBI), set up on April 2, 1990 under an Act of Indian Parliament, is the principal financial institution for the promotion, financing and development of the micro, small and medium Enterprise (MSME) sector in India. SIDBI provides finance in two forms viz. indirect finance by way of long term loans, working capital facilities, discounting/rediscounting bills of exchange and refinance to Primary Lending Institutions and Micro Finance Institutions. SIDBI is also among the top 30 Development Banks of the World. SIDBI has 3 subsidiaries: SIDBI Venture Capital, SIDBI trustee Co and the newly created MUDRA. Following an amendment to the SIDBI Act in 2000, the equity held by IDBI was transferred to various PSU banks, government-owned insurance companies and financial institutions. is jointly owned by the GoI (largest shareholder with a stake of 20.85%), SBI (with a stake of 15.65% as on March 31, 2022), LIC (13.33%) and other PSBs (the balance). SIDBI is the nodal agency for government schemes targeted towards the MSME sector and in the past SIDBI has received budgetary support, support from RBI and GOI guarantee of foreign government borrowing suggesting implicit GOI support.

7. Indian Bank: Indian Bank is a medium-sized bank. In 2007, it made its initial public offering, resulting in dilution of ownership of GoI to 80%. GOI's ownership further reduced to 79.86% following the issuance of shares under amalgamation to the shareholders of Allahabad Bank. Following the amalgamation, the merged entity enjoys the benefits of a larger balance sheet, optimised capital utilisation and wider geographic reach leading to deeper penetration. Bank has a strong domestic branch network comprising 5,728 branches and 4,825 ATMs & BNA. The bank also has three overseas branches located at Singapore, Colombo and Jaffna. Indian Bank's gross advances stood at Rs 437,941 crores as on September 30, 2022. Asset quality of the bank, with reported gross NPAs of 7.30% as on September 30, 2022 (8.47% as on March 31, 2022), remains modest, albeit with an improving trend. Capitalisation of the bank is adequate, with overall CAR at 16.15% as on September 30, 2022. Resource profile of Indian Bank has strengthened following its amalgamation with Allahabad Bank, with the proportion of low-cost CASA deposits at 40.94% as on September 30, 2022.

8. Canara Bank: Canara Bank is one of India's larger PSBs, with total advances and deposits of Rs 8.24 lakh crore and Rs 11.33 lakh crore, respectively, as on September 30, 2022. The merger of Syndicate Bank has also strengthened the market position of the bank. It has a Pan-India branch presence, with around 9,722 domestic branches and 10,759 automated teller machines (ATMs) across the country on the same date. It also has overseas branches at three locations. Revenue is diversified across businesses, products and geographies, augmenting the strong overall market position. The bank has a strong franchise in the large and mid-size corporate banking segments. Besides banking, it undertakes factoring, asset management, insurance and retail and institutional broking services through its subsidiaries and associates. The asset quality of the bank, with gross non-performing assets (NPAs) of 6.37% as on September 30, 2022 (7.51% as on March 31, 2022) remains modest, albeit with an improving trend.

9. HDFC Bank Ltd: HDFC Bank is the largest private sector bank in India. It offers a wide range of banking services, including commercial and transactional banking in the wholesale segment, and branch banking in the retail segment, with focus on car finance, business banking loans, commercial vehicle finance, credit cards, and personal loans. The bank acquired Centurion Bank of Punjab in May 2008. It has three overseas branches, one each in Dubai, Bahrain, and Hong Kong, as well as two representative offices, one each in the United Arab Emirates and Kenya. Further, the bank also has an Offshore Banking Unit at International Financial Service Centre (IFSC), at GIFT City, Gandhinagar in Gujarat. The bank is a market leader in non-mortgage retail asset segments such as commercial vehicles and car financing. It has also been expanding its geographical reach over the past few years; and has set up new branches primarily in semi-urban and rural areas. As on March 31, 2022, the bank had 6,342 branches.

   The bank is present in the broking business via HDFC Securities Ltd, which also operates as a third-party distributor of mutual fund products, insurance, initial public offerings, fixed deposits, bonds and non-convertible debentures. HDB Financial Services Ltd is a non-deposit-taking non-banking financial company, offering loans against property, commercial vehicle and construction equipment loans, and small and medium-sized enterprises financing.

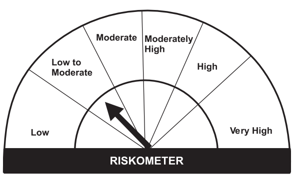
10. LIC Housing Finance Ltd: LICHF is the second largest housing finance company in India after HDFC/Individual loan portfolio. Credit strength is derived from the support of the parent (LIC), sound capitalization and healthy resource profile. Asset quality has remained strong and stable in the past few years and given that the book is largely retail and to salaried customers; it is likely that these levels are maintained as the portfolio continues to grow. Company has started to expand the non-housing segment in a calibrated way, which helps improve the yields, and at the same time has been able to maintain low level of overall delinquencies. Retail housing is ~85% of the total book. A large number of LIC Housing's senior management personnel are on deputation from LIC. LIC has also committed to not allowing its stake to fall below 33% which gives a strong support to its rating. Expect continued support over long term in terms of ownership, common branding and managerial inputs.

*Source: HSBC Asset Management, India, (HSBC AMC), Credit issuer's corporate websites, Data as of 31 October 2022

*The above information has been prepared by HSBC Asset Management (India) Private Limited (HSBC) for general information purposes only and does not constitute any investment research, investment advice or a recommendation to any reader of this content to buy or sell investments. Expressions of opinion are those of HSBC only and are subject to change without any prior intimation or notice. All information mentioned above (including that sourced from third parties), is obtained from sources HSBC, the third party believes to be reliable but which it has not independently verified and HSBC, the third party makes no guarantee, representation or warranty and accepts no responsibility or liability as to the accuracy or completeness of such information.

HSBC Ultra Short Duration Fund Riskometer

HSBC Ultra Short Duration Fund



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

Ultra Short Duration Fund - An Open ended Ultra-Short term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 3 months to 6 months. Please refer Page no. 9 of the SID for explanation on Macaulay duration. Relatively low interest rate risk and relatively low credit risk.

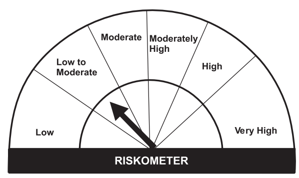
This product is suitable for investors who are seeking##:

- Income over short term with Low volatility.
- Investment in debt & money market instruments such that the Macaulay Duration of the portfolio is between 3 months - 6 months.

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

Please note that the above risk-o-meter is as per the product labelling of the Scheme available as on the date of this communication/ disclosure. As per SEBI circular dated October 5, 2020 on product labelling (as amended from time to time), risk-o-meter will be calculated on a monthly basis based on the risk value of the scheme portfolio based on the methodology specified by SEBI in the above stated circular. The AMC shall disclose the risk-o-meter along with portfolio disclosure for all their schemes on their respective website and on AMFI website within 10 days from the close of each month. 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:
CRISIL Ultra Short Duration Fund A-I Index



Potential Risk Class (HSBC Ultra Short Duration Fund)

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

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.

HSBC Ultra Short Duration Fund (HUSDF)

Date: November 2022

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