



## FOCUS FUND

# HSBC Short Duration Fund (HSDF)

Short Duration Fund - An open ended short term debt scheme investing in instruments such that the Macaulay duration<sup>^</sup> of the portfolio is between 1 year to 3 years.<sup>1</sup> (Formerly known as HSBC Income Fund - Short Term Plan.)

November 2021

### View on Short Duration segment

Accommodative but cautious RBI

- Unanimous decision by MPC (Monetary Policy Committee) maintaining Status quo on rates and 5-1 vote in favor of retaining accommodative stance; inflation estimate revised downwards sharply for Q2 and Q3 and overall for FY 23 by 40 bps; FY22 GDP estimate unchanged at 9.5%. However, increased fortnightly 14-day variable rate reverse repo (VRRR) in a gradual manner to up to INR 6 lakh crores by end December 2021 (from current INR 4 lakh crores); this has slowly led to an increase in rates at the ultra-short end of the curve by 20-25 bps over the past month

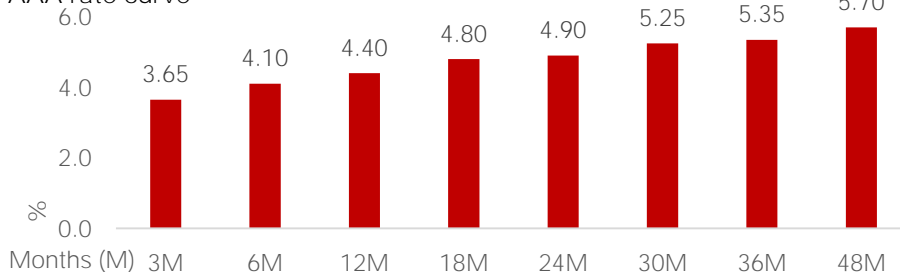
Absence of GSAP

- No further GSAP purchases announced in RBI policy. After announcing INR 1tn in Q1 and INR 1.2 tn in Q2, RBI discontinued GSAP in October policy. These are likely to make G-Sec in the belly of the curve and long bonds more volatile. Also, the extent of supply in the near term from G-sec and SDL front is largely towards the duration segment, with H2 borrowing in the 2-5 year segment being lower. 2-5-year segment accounts for only 16% in H2FY 22 v/s 26% in H1 FY 22, while the 10-14-year segment in H2FY 22 accounts for 46% of borrowings v/s 38% in H1 FY 22.

Steepness in G-Sec and Corporate yield curve offers attractive carry and roll down

- The short and medium part of the corporate curve still remains attractive from carry play point of view and have to a reasonable extent, discounted RBI's calibration in liquidity. We also like the short-medium part of Government securities curve as current three years point over one year and five-seven years point over one/three year offers attractive risk-return tradeoffs.

AAA rate curve



- With overnight and ultra-short trading/pricing over reverse repo of 3.35%, the 24m - 36m segment currently at 4.90% - 5.35% discount likelihood of 20-25 bps hardening at ultra-short end. This is due to VRRR and RBI action over next 6 months. And any excess hardening of say up to 30bps can still be able to generate at par with Ultra short / low duration funds over next 6 - 12m holding period given the steepness of ~100 bps over 1 to 3-year part of the curve

<sup>1</sup> Pursuant to the circular issued by SEBI on 'Categorization and Rationalization of the Schemes, there has been change in the fundamental attribute(s) of the aforesaid effective from Mar 14, 2018.

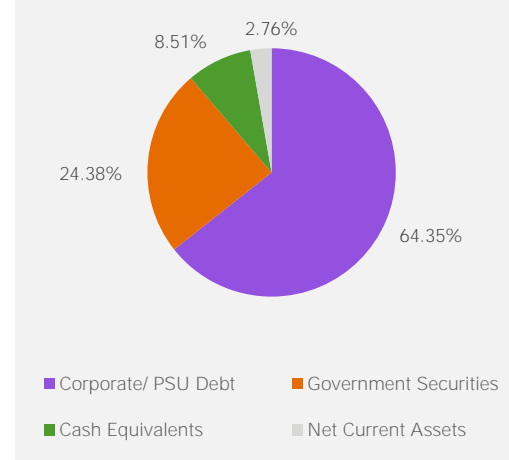
<sup>^</sup> The Macaulay duration is the weighted average term to maturity of the cash flows from a bond. The weight of each cash flow is determined by dividing the present value of the cash flow by the price. Please refer to the page number 9 of the Offer Document on which the concept of Macaulay's Duration has been explained

## Portfolio

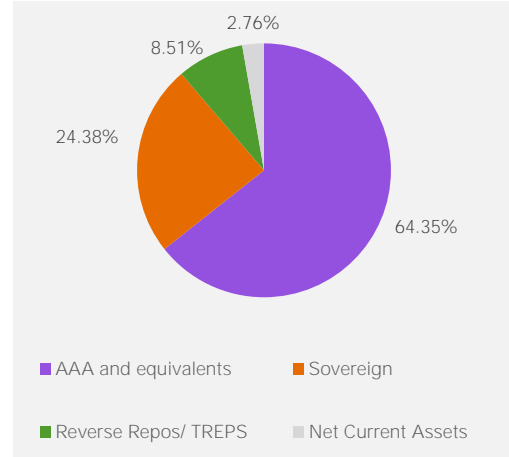
Issuer	Ratings	% to Net Assets
<b>Corporate/ PSU Debt</b>		
Corporate Bonds / Debentures		64.35%
Sikka Ports and Terminals <sup>Top 10</sup>	CRISIL AAA	7.90%
L&T Finance <sup>Top 10</sup>	CRISIL AAA	7.75%
Small Industries Development Bk of India <sup>Top 10</sup>	CARE AAA	7.53%
National Bk for Agriculture & Rural Dev. <sup>Top 10</sup>	[ICRA]AAA	7.50%
Export Import Bank of India <sup>Top 10</sup>	CRISIL AAA	4.72%
LIC Housing Finance <sup>Top 10</sup>	CRISIL AAA	4.54%
Kotak Mahindra Prime <sup>Top 10</sup>	CRISIL AAA	4.52%
REC <sup>Top 10</sup>	CARE AAA	3.21%
Power Finance Corporation <sup>Top 10</sup>	CRISIL AAA	3.12%
Housing & Urban Development Corp	CARE AAA	3.06%
HDB Financial Services	CRISIL AAA	3.01%
Sundaram Finance	CRISIL AAA	2.99%
Bajaj Housing Finance	CRISIL AAA	2.97%
Housing Development Finance Corp	CRISIL AAA	1.53%
<b>Government Securities</b>		<b>24.38%</b>
5.22% GOVT OF INDIA RED 15-06-2025 <sup>Top 10</sup>	SOVEREIGN	11.93%
6.18% GOVT OF INDIA RED 04-11-2024	SOVEREIGN	3.09%
8.5% JAMMU & KASHMIR SDL RED 30-03-2025	SOVEREIGN	1.62%
8.58% GUJARAT SDL RED 23-01-2023	SOVEREIGN	1.57%
8.59% ANDHRA PRADESH SDL RED 23-01-2023	SOVEREIGN	1.57%
8.6% MADHYA PRADESH SDL RED 23-01-2023	SOVEREIGN	1.57%
8.65% UTTAR PRADESH SDL 10-03-2024	SOVEREIGN	1.29%
8.66% WEST BENGAL SDL RED 20-03-2023	SOVEREIGN	1.11%
8.73% UTTAR PRADESH SDL 31-12-2022	SOVEREIGN	0.63%
<b>Cash Equivalent</b>		<b>11.27%</b>
TREPS*		2.41%
Reverse Repos		6.11%
<b>Net Current Assets:</b>		<b>2.76%</b>
<b>Total Net Assets as on 31-Oct-2021</b>		<b>100.00%</b>

\*TREPS : Tri-Party Repo

## Asset Allocation



## Rating Portfolio



## Current Portfolio Strategy

- From medium term perspective, HSBC Short Duration Fund is expected to benefit from attractive carry at short and medium part of the curve.
- It offers value for investors at current short-term yields over funding cost in terms of spread. In the recent month, we have witnessed some volatility in the short to medium segment.
- However, the short and medium part of the curve still remains attractive from carry play point of view and have to a reasonable extent, discounted RBI's calibration in liquidity
- The current steepness in the 2-3 yr segment will most likely benefit despite firming up of rates at the ultra-short end of the curve given the steepness in the curve currently.
- We also like the short-medium part of Government securities curve as current three years point over one year and five-seven years point over one/three year offers attractive risk-return tradeoffs.
- The extent of supply in H2 from G-sec and SDL front is largely towards the 10-14yr and 30yr segments and this should keep the pressure contained in the medium part of the segment.
- Overall, the pick-up versus overnight rate is quite attractive in the short-medium segment on the G-sec curve and alongside on the corporate curve. As such we intend to maintain a neutral duration versus the index in near term.

## Rationale on existing credit exposures\* (Top 5)

1. **Sikka Ports and Terminals Ltd:** Sikka Ports and Terminals Limited (SPTL) is classified as an “Associate Company” of Reliance Industries Limited. It is owned 100% by Reliance Industries Holdings Private Limited (RIHPL). RIHPL is a holding company which is the private investment vehicle for holding several RIL group assets within the Reliance Industries – group companies. SPTL operates as a captive port and provides port infrastructure facilities to enable imports (mainly of crude oil) and exports (refinery and petrochemical products) of RIL. The operations of the company are critical for RIL as they are closely integrated with the facilities of its refining and petrochemical segments. Being the major handler of RIL’s refining/petrochemical volumes, the entity remains strategically important to the RIL group. Apart from the above operations, SPTL is also engaged in operating and hiring construction equipment and machinery, and is a co-developer of Jamnagar special economic zone (SEZ). For the purpose of handling crude oil and petroleum and petrochemical products of RIL, SPTL has entered into long term throughput agreements with RIL for the two refineries at Jamnagar thus providing long term revenue visibility and stable cash flows to the company. The assured revenue stream and timely receipt of receivables from the strong counterparty enables SPTL to honor its debt commitments in timely manner. Strong parentage derived from Reliance Industries group shareholding and strategic importance to Reliance Industries handling the ports and logistics operations is a strong positive. In addition, company has a strong cash flow generation.
2. **L&T Finance:** 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.
3. **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. It is held 72.8% by PSU banks, 21.9% by insurance companies and 5.3% by financial institutions. Out of 15 directors, 8 are appointed/nominated by Central Government which includes 2 whole time directors, 2 government officials and three experts. 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.
4. **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). GOI and Reserve Bank of India own 99.60 percent and 0.40 percent, respectively, of NABARD’s equity share capital. 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.
5. **EXIM:** EXIM Bank is an entity incorporated under the Act of the Indian Parliament and owned by Government of India and acts as the principal financial institution coordinating activities of Indian institutions engaged in international trade finance. Exim provides project finance, working capital finance and short-term credit to exporters. Exim bank also extends line of credit facilities to sovereign governments, overseas financial institutions and regional development banks, to promote India’s exports to trading partners. Such lines of credit have increased significantly in the recent past, increasing Exim bank’s strategic importance. The standalone credit profile of EXIM bank is also supported by its strong capitalization levels. Government has consistently infused capital in Exim Bank. Also entity has demonstrated ability to raise wholesale funds at competitive rates both in domestic and international markets. Commands one of the best rates in international markets among Indian issuers given quasi-sovereign status. Further the company has raised funds in multiple currencies.

Source: HSBC Asset Management, India, Data as of 31 October 2021

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## Investment Objective:

To provide reasonable income through a diversified portfolio of fixed income securities such that the Macaulay duration<sup>^</sup> of the portfolio is between 1 year to 3 years. However, there can be no assurance or guarantee that the investment objective of the scheme would be achieved.

## Fund Details



**Fund Manager** <sup>3</sup>

Ritesh Jain



**AUM (as on 30.9.21)**

326.44 Cr



**Minimum Investment**

Lumpsum	SIP	Additional Purchase
Rs. 5,000	Rs. 500	Rs. 1,000



**Average Maturity** | 2.05 years

**Modified Duration** | 1.81 years

**Macaulay Duration** | 1.89 years

**Yield to Maturity** <sup>2</sup> | 5.00%



**Benchmark**

CRISIL Short Term Bond Fund Index



**Inception Date**

10 December 2002



**Exit Load**

NIL

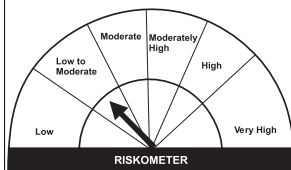
<sup>2</sup> YTM Based on invested Amount

<sup>3</sup> The said Fund is managed by Ritesh Jain effective September 01, 2020

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### Riskometer

#### HSBC Short Duration Fund



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

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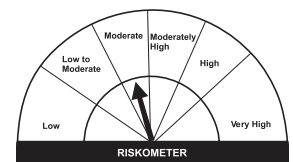
**This product is suitable for Investors who are seeking<sup>\*\*</sup>:**

- Regular Income over Medium term.
- Investment in diversified portfolio of fixed income securities such that the Macaulay<sup>^</sup> duration of the portfolio is between 1 year to 3 years.

**\*\*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 Short Term Bond Index



Source: HSBC Asset Management, India, (HSBC AMC), Bloomberg. Data as of 31 October 2021

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