12 May 2020

Product Focus

HSBC Short Duration Fund

An open ended Short Term Debt Scheme investing in instruments such that the Macaulay duration^ of the portfolio is between 1 year to 3 years.

Fund Manager

Kapil Punjabi

Our view

Limited demand with rising supply is leading to a scenario where short term yields are higher than they usually are. This provides a potential opportunity to generate better real returns. The portfolio is constructed with the modified duration of 15.7 months to take advantage of the current higher short term relative rates.

Fund positioning and strategy

The fund focuses on high quality credits and optimal liquidity.

HSBC Short Duration Fund is ideal for investors who are looking to invest for a 3-year time horizon. The fund manager has the discretion to vary the (Macaulay) duration of the fund between 1 to 3 years.

Currently, there is significant risk aversion by some of the largest investors, primarily commercial banks. This is despite the surplus liquidity in the system. Outcome of this limited demand with rising supply (corporates will need to borrow) is leading to a scenario where short term yields are higher than they usually are. This provides a potential opportunity to generate better real returns. RBI has also recently reduced repo rates due to which the current yield of corporate debt over repo rates are substantially higher than the past. Hence, the portfolio is constructed with the modified duration of 15.7 months to take advantage of the current short term rate benefit.

Fund portfolio

Name of the Instrument	Rating*	Type	Percentage to Net Assets
8.29% ENERGY EFFICIEN NCD 28-05-21	ICRA AA-	Corporate Bonds / Debentures	26.12%
6.4% NABARD NCD RED 31-07-2023	ICRA AAA	Corporate Bonds / Debentures	13.51%
8.5% VEDANTA LTD NCD RED 05-04-2021	CRISIL AA	Corporate Bonds / Debentures	12.79%
6.99% SIDBI NCD RED 08-08-2022	CARE AAA	Corporate Bonds / Debentures	10.92%
6.98% POWER FIN CORP NCD RED 20-04-2023	CRISIL AAA	Corporate Bonds / Debentures	8.00%
7.7% ORIX LEASING & FIN SER NCD 21-09-20	FITCH AAA	Corporate Bonds / Debentures	7.94%
TREPS_RED_11.05.2020		TREPS	7.76%
7.61% HUDCO LTD RED 22-06-2022	ICRA AAA	Corporate Bonds / Debentures	5.49%
Cash & other receivables		Cash and equivalents	3.81%
7.87% HDFC LTD NCD RED 18-07-2022	CRISIL AAA	Corporate Bonds / Debentures	2.70%
8.75% HSG DEV FIN NCD 04-03-21 PC 140417	CRISIL AAA	Corporate Bonds / Debentures	0.54%
7.56% TUBE INVEST OF IND NCD 28-12-2020	CRISIL AA+	Corporate Bonds / Debentures	0.42%
Total			**100%**

* Data as on 31 March 2020 provided by CRISIL and ICRA. Data as of 8 May 2020, ^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.

HSBC
Global Asset
Management

Portfolio duration and rating exposure

Modified duration	% of portfolio
Less than 6 months	15.7
6 months - 1 year	39.9
1 - 2 years	19.1
2 - 3 years	21.5
Cash & Receivables	3.8
Total	**100**

Portfolio duration
Fund is overweight on papers with modified duration of 6 months to 1 year with an allocation of 39.9%. Allocation to instruments with 1 to 3 year modified duration is about 40.6%.

Rating exposure	% of portfolio
AAA	49.1
AA+	0.4
AA	12.8
AA-	26.1
TREPS	7.8
Cash & Receivables	3.8
Total	**100**

Rating exposure
Fund has highest exposure of 49.1% to AAA rating papers with allocation to cash equivalent and TREPS at 11.6%.

HSBC Short Duration Fund	
Maturity (in months)	18.97
YTM	8.10%
Modified Duration (months)	16.58

Data as of 8 May 2020

Rationale on existing credit exposures

1. **Energy Efficiency Services Ltd (EESL):** EESL undertakes and implements projects on behalf of central and state governments. It is a JV of 4 Public Sector Enterprises, namely, PFC (32%), REC (32%), PGCIL (4.9%), NTPC (32%). The projects are primarily intended to shift to low cost and cleaner energy such as LED street lightening, distribution of LED bulbs to consumers, building and installation of energy efficient electric systems in government organisations, procurement and operation of electric vehicles for government institutions and so on. Strategic importance is given to the company given its pivotal role in promoting energy efficiency, support from its sponsors including expected capital infusions. Further, company has a reasonable borrowing mix, including that of international lenders such as KFW and ADB, few of which are guaranteed by government of India. Regulated ROE or cost plus model with state or central government owned entities as counterparties in most of its businesses also provides comfort on eventual realization of its receivables as well as on revenues over the medium term.

2. **HDFC Ltd:** HDFC is the largest housing finance company and dominates the housing finance market in with a market share of 16% in total outstanding mortgages. Capitalization levels are comfortable and will remain so going forward. The funding mix of the company is comfortable with bonds and debentures accounting for ~60% of the overall borrowings. Bank borrowings accounted for only ~10% and deposits around 1/3rd of the overall mix. HDFC has a relationship with over 30 banks and has healthy access to funding from mutual funds and insurance companies. Earnings profile is very strong, supported by healthy spreads and very good asset quality maintained over the years.

3. **NABARD:** 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 co-operative 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.

4. **Vedanta Ltd.:** Vedanta is a large and diversified global commodity player operating in extraction of zinc, oil, copper, aluminum, iron ore and power. Entity has strong financial flexibility and favorable competitive positioning in most of the segments it operates. Entity has successfully operated through several business cycles as its cost efficient operations and stability of cash flows from zinc business bode well for the standalone credit profile.

5. **SIDBI:** SIDBI is the apex financial institution for the MSME sector. Currently, SBI is the largest shareholder with a stake of 16.73% followed by the GOI at 15.40% and LIC at 14.25%. Other PSBs and institutions own the remaining share in the company. SIDBI provides refinance to primary lending institutions like banks, State Financial Corporation (SFCs) and State Industrial Development Corporations (SIDCs), etc., which, in turn lend to units in the MSME sector. SIDBI also provides direct finance to the MSME sector by way of long-term loans, working capital facilities, discounting/rediscounting bills of exchange, etc. They also partner with state-level/regional-level coordinators to provide finance to last mile financiers of small/micro business enterprises. Asset quality is very strong and prospectively should continue with the bulk of the book being refinancing portfolio. Gross NPA being contained so far at less than 1% and direct lending ~7-8% and adequate capitalization provides comfort on the investment.

6. **Orix Leasing and Financial Services (OLFS):** OLFS is a subsidiary of Orix Corporation Japan with implicit support of parent factored in the credit profile. The entity operates in leasing services predominantly in vehicle leasing. Implicit support is demonstrated from bank debt being guaranteed by the ultimate parent and key bond covenants incorporating management stake and control at all points in time. Capitalisation has been very strong with low leverage. While earnings profile is modest as the entity is yet to pick up scale and size, liquidity is strong supported by bank lines and undrawn limits from parent

7. **Power Finance Corporation (PFC):** PFC was established in July 1986 by GOI as an institution dedicated to fund and develop the domestic power sector. PFC aims to promote balanced and integrated development of the power sector by providing finance to low-cost, efficient and reliable projects. It lends to public sector entities, state electricity boards, state governments and private sector power utilities. PFC is majority owned by GOI. Entity’s asset quality issues are likely to have bottomed out. Post-acquisition of REC by PFC, rating agencies have reaffirmed both agencies at AAA, taking into account mainly the strategic importance of the company. PFC and REC are expected to continue to be strategically important to the Government of India and will continue to play an important role in funding of power projects, especially those of the state government owned electricity companies.

8. **Housing & Urban Development Corporation (HUDCO):** HUDCO’s strong credit profile stems from Government of India holding 90% stake and the entity being a nodal agency for implementation of government policy on social housing and urban infrastructure. Given that these two elements have been one of the key sectors in which there is strong policy thrust over long term, importance of this entity continues. Furthermore, balance sheet strength is strong and earnings profile is reasonable to absorb any shocks. Lending is largely to housing and urban infra through State Governments and agencies which primarily include state housing boards, rural housing boards, slum clearance boards, development authorities, Municipal Corporations, joint ventures and private sector agencies. Overall, given that HUDCO plays a plays a nodal and catalytic role in the implementation of government policy in the high-priority housing and urban development sectors, credit comfort on the entity is very strong.

9. **Tube Investment of India ltd:** Tube Investments of India Limited (TIIL) is one of the flagship companies of Chennai-based Murugappa group. The standalone entity is diversified with business in cycles, engineering and metal formed products. In addition to having a strong group backing, our investment comfort is also on the strong financial and business profile of the standalone entity. Entity (and group) have a long standing track record through several business cycles.

Source - HSBC Asset Management, India (HSBC AMC), Data as at 8 May 2020

Fund NAVs

Plans	NAV
HSBC Short Duration Fund - Growth Option	27.32
HSBC Short Duration Fund - Direct Plan Growth Option	29.19
HSBC Short Duration Fund - Monthly Dividend Option	10.02
HSBC Short Duration Fund - Weekly Dividend	9.10
HSBC Short Duration Fund - Quarterly Dividend Option	9.54
HSBC Short Duration Fund - Direct Plan Monthly Dividend Option	11.30
HSBC Short Duration Fund - Direct Plan Weekly Dividend Option	9.20

Data as of 8 May 2020

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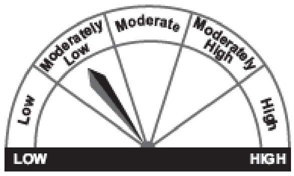
Investment Objective: To provide reasonable income through a diversified portfolio of fixed income securities such that the Macaulay duration of the portfolio is between 1 year to 3 years. However, there can be no assurance or guarantee that the investment objective of the scheme would be achieved.

This product is suitable for investors who are seeking*:

- Regular Income over Medium term
- Investment in diversified portfolio of fixed income securities such that the Macaulay^ 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.**

Riskometer



Investors understand that their principal will be at Moderately Low risk

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HSBC Asset Management (India) Pvt. Ltd. CIN NO: U74140MH2001PTC134220. 16, V.N. Road, Fort, Mumbai-400001

Email: hsbcmf@camsonline.com **Website:** www.assetmanagement.hsbc.com/in