HSBC Money Market Fund
HSBC Mutual Fund

HSBC Mutual Fund

Agenda

- Fixed Income Market Outlook & Market Opportunity

- HSBC Money Market Fund - Product to capitalize on the opportunity

- Appendix
  - HSBC's process driven investment approach

Source: HSBC Mutual Fund

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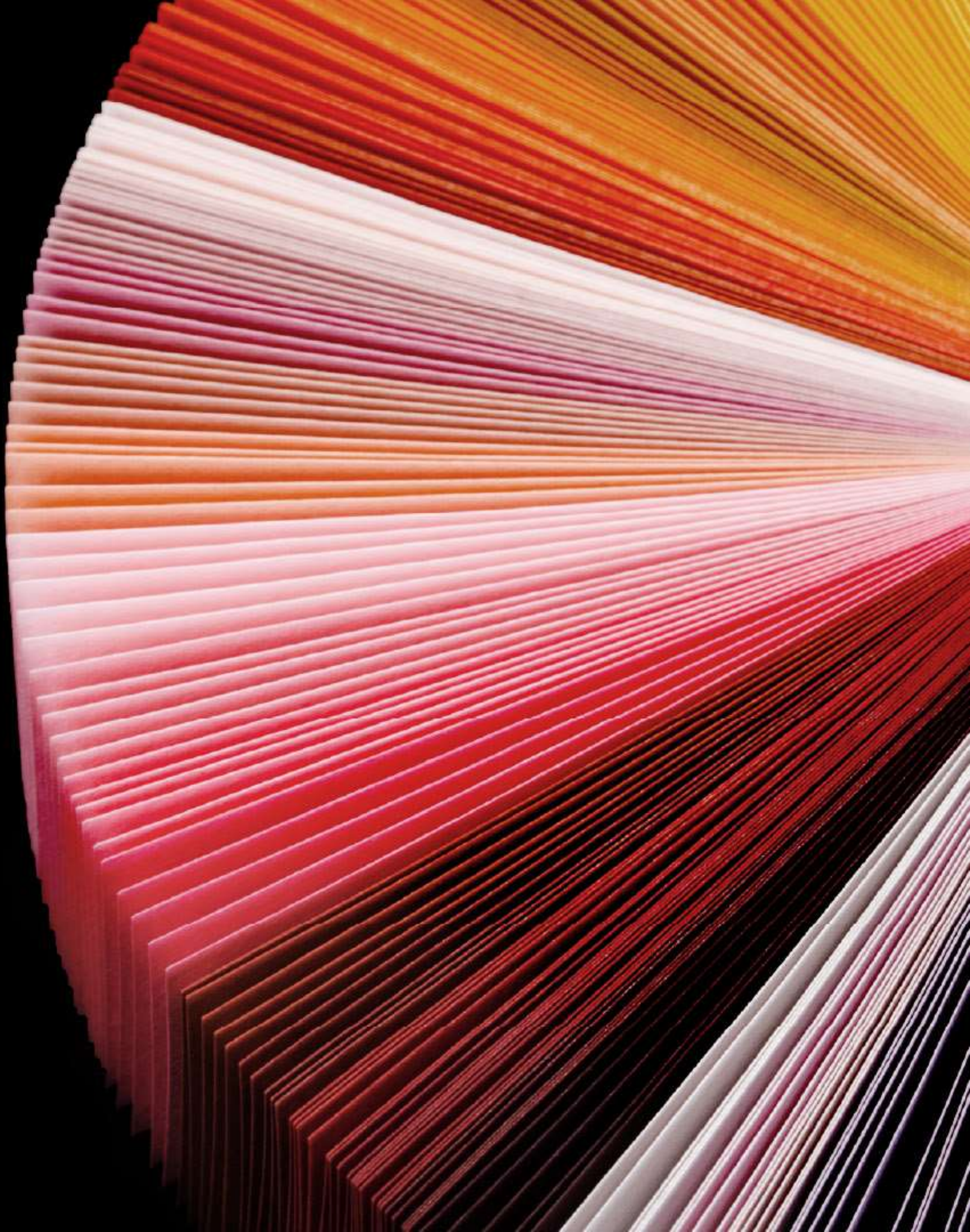
Fixed Income Market Outlook & Market Opportunity



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Fixed Income Market Outlook & Market Opportunity

- Policy rates have peaked: Repo rate has reached terminal level of 6.50% in February 2023 policy meeting

- Systemic liquidity has flipped to huge negative (from huge surplus): RBI has been successful in bringing down surplus system liquidity to negative levels; operating rate now more closer to MSF rate

- Banking system credit – deposit trends: Mismatch has led to sharp spike in FD rates, and even more so in CD rates

- Attractiveness of 6 – 12 month money market rates: Various relative value indicators all point towards the 6 to 12 month space being an attractive investment opportunity on the money market yield curve

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Monetary Policy 8th February 2024

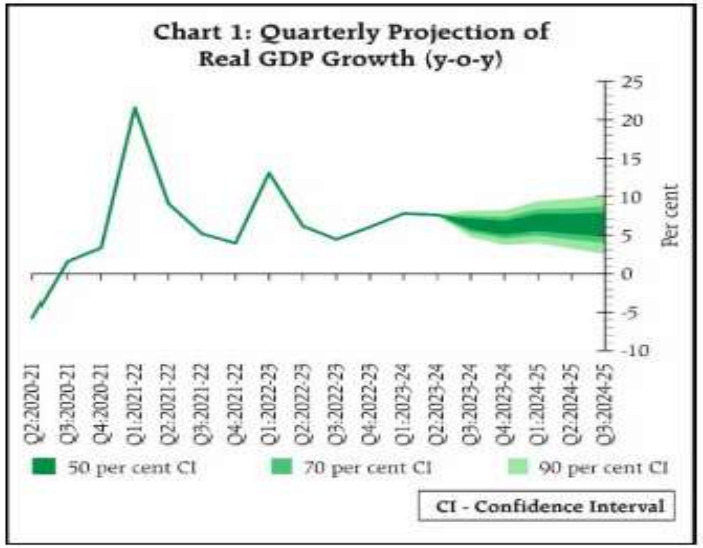
- MPC has unanimously kept the repo rate unchanged at 6.50% in its last 5 MPC meet and is expected to maintain pause in February 24 MPC meet

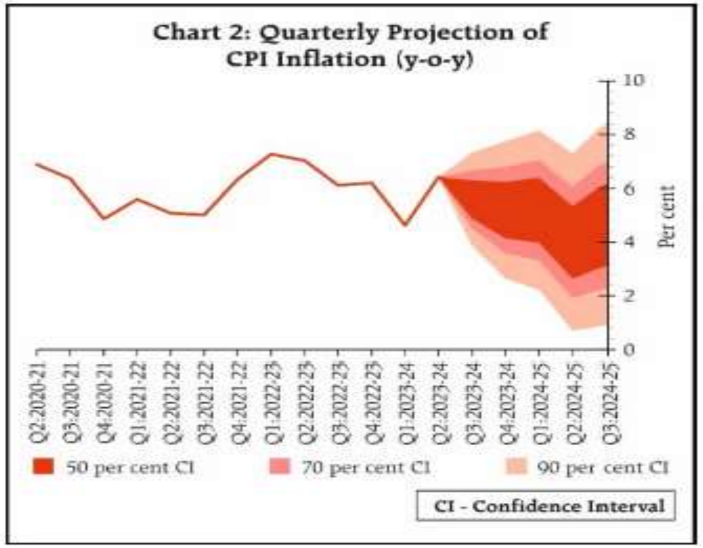
- RBI might look to slightly tweak its "withdrawal of accommodation" policy stance as Inflation is expected to ease and trend closer to RBI's target of 4% over the medium term. RBI has retained the stance of the monetary policy as 'withdrawal of accommodation' since April 2022.

- CPI is projected at 4.5% for FY 25 – (Q1 at 5.2%, Q2 @ 4.0%, Q3 at 4.7%) Risks evenly balanced

- GDP projected at 6.5% for FY 25 – (Q1 at 6.7%, Q2 at 6.5%, Q3 at 6.4%) Risks evenly balanced.

- MPC is expected to ease its tight liquidity stance as currently liquidity tightness has forced RBI to conduct Variable Repos to the tune of INR 2500bn



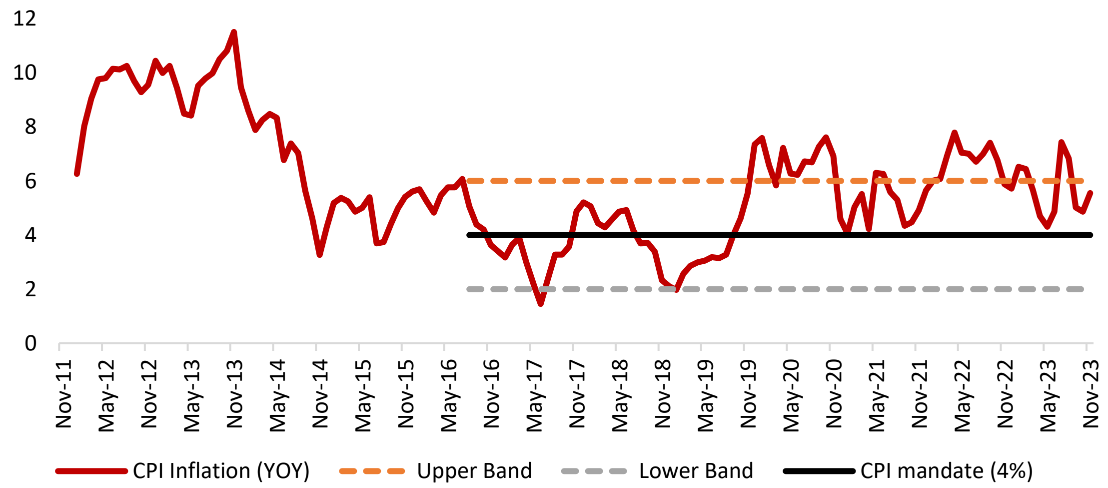


Source: RBI

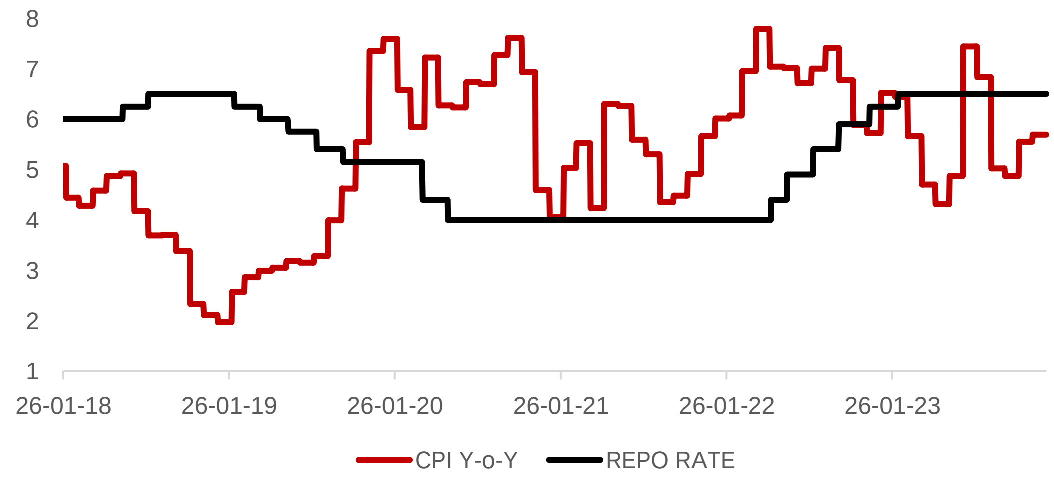
Policy rates have peaked

- Policy rates have peaked in February 2023: RBI may look to cut rates in Q2/Q3 FY 2025 as inflation is projected to average at 4-4.5%
- Cooling off in inflation prints witnessed over the last few readings, with average print lower than RBI estimates will give RBI confidence to revise inflation projections lower
- Going forward, pressure on MPC to keep policy environment tight has reduced significantly
- Over past 12 months, RBI has been gauging the impact on growth/inflation of 250bps repo hikes and another 65bps from flipping of liquidity between April 22 to February 2023. Expect MPC to possibly tweak policy stance by April 2024

Inflation trajectory vs Targeted mandate



Repo rate vs CPI inflation



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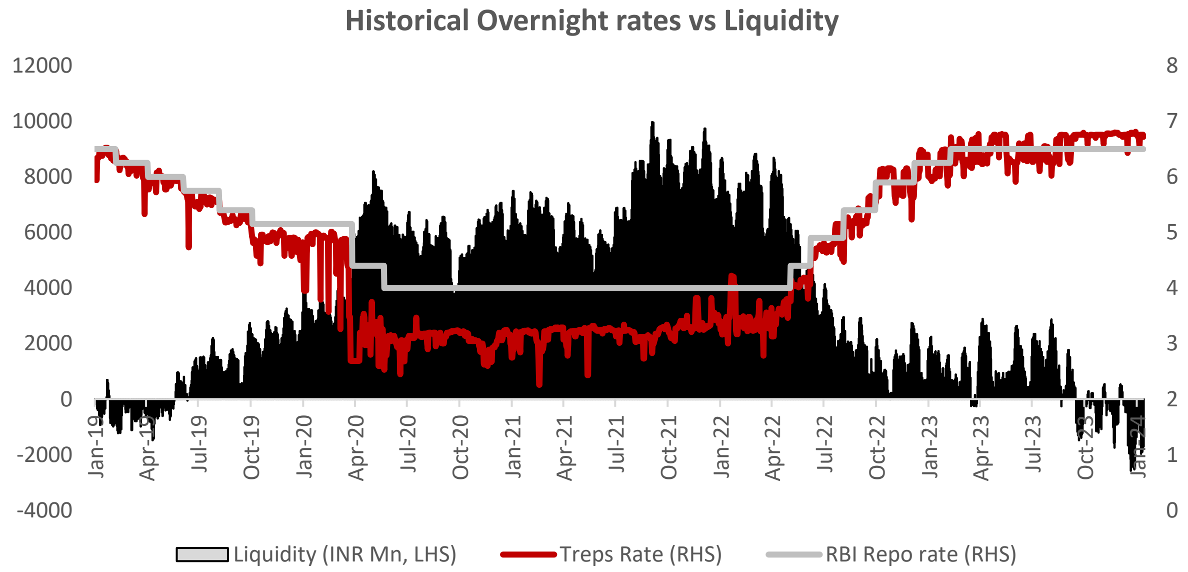
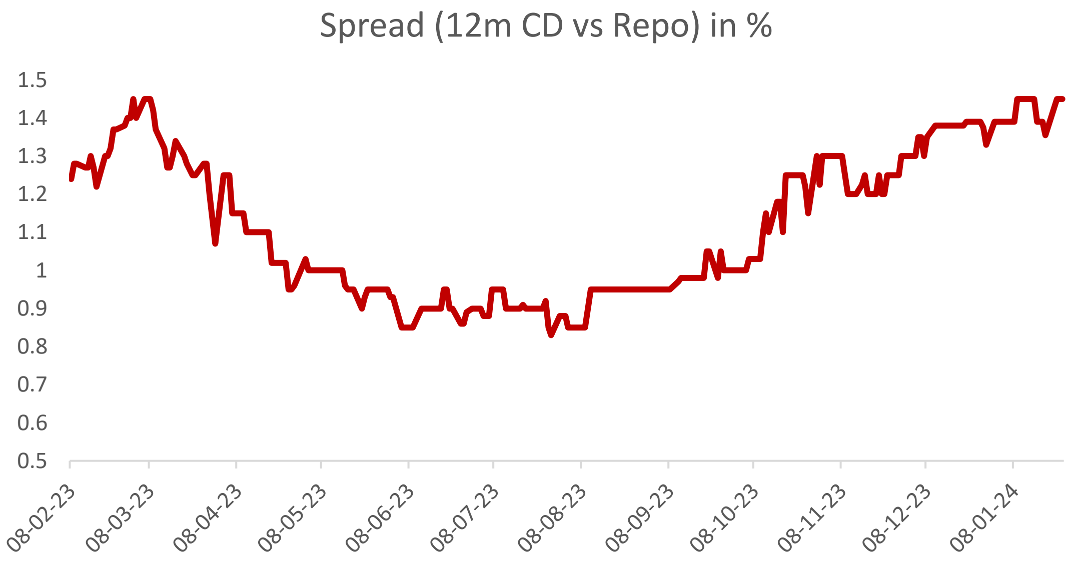
Source: Bloomberg, Data updated as on 31st December 2023

Systemic liquidity has flipped to deficit

- Systemic liquidity has flipped to large negative (from huge surplus): RBI has been successful in bringing down surplus system liquidity to negative levels; operating rates are now closer to MSF rate of 6.75%
- RBI's tight liquidity stance declared in October 2023 policy has resulted in large negative system liquidity since October 2023.
- As a result, spreads of 6-12 month money market rates vs Repo at the higher range of the band
- We expect liquidity to likely turn neutral in Q1 FY 2025 with help of GOI spending and possible change in liquidity stance by RBI, prior to potential policy rate cuts in Q2/Q3 FY 2025, we expect the current elevated spreads in the 6-12 month money market curve space to correct significantly from current levels.





Source: Bloomberg
Data updated as on 25th January 2024

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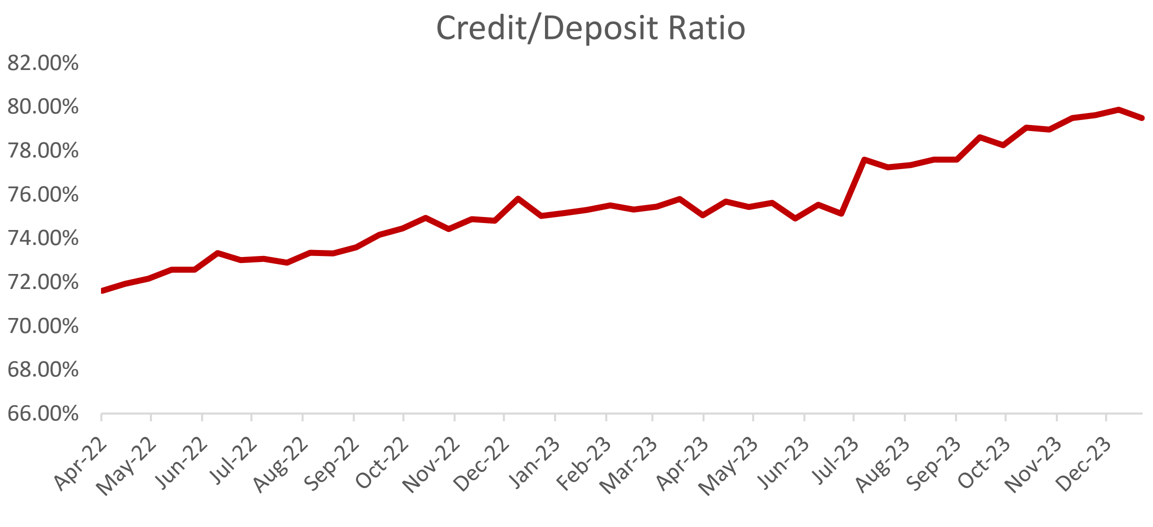
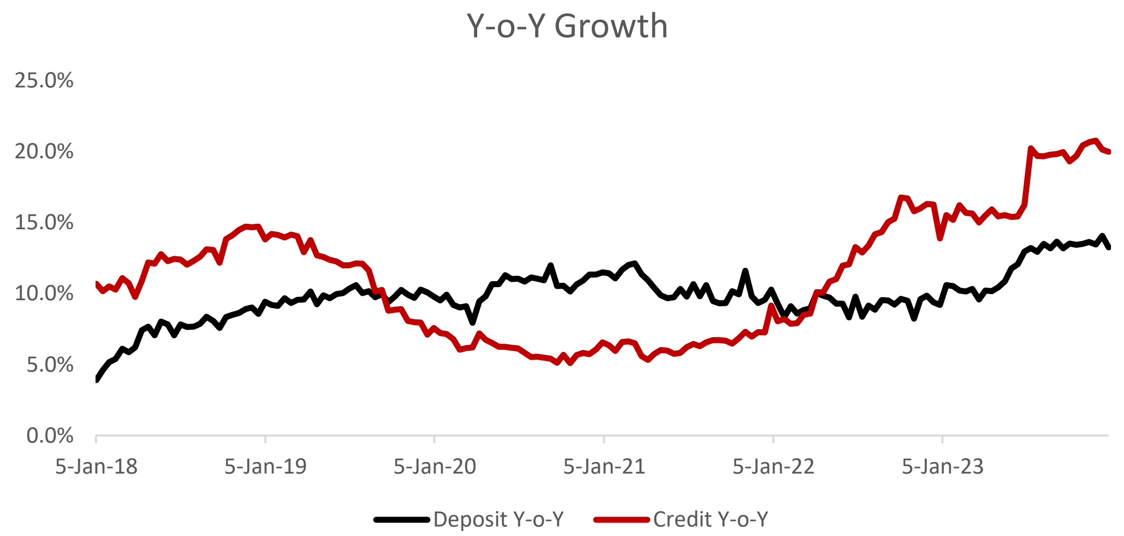
Banking Credit – Deposit trends

- Banking system credit – deposit trends: Mismatch has led to sharp spike in short term FD rates, and even more so in CD rates
- Gap between Credit to Deposit has widened between 7th April 2023 and 12th Jan 2024; Credit to Deposit ratio excluding the impact of HDFC-HDFC Bank merger has increased from 75% to 77.6% with Y-oY growth for Credit at 16% vs growth for Deposits at 12.40%
- Credit growth has outpaced deposit growth over the last few years, and with liquidity at neutral to negative levels, deposit rates have already seen a sharp move up
- Seasonally higher deposit mobilization and credit offtake in March Quarter will make an attractive entry point at higher CD rates





Source: RBI
Data updated as on 31 December 2023

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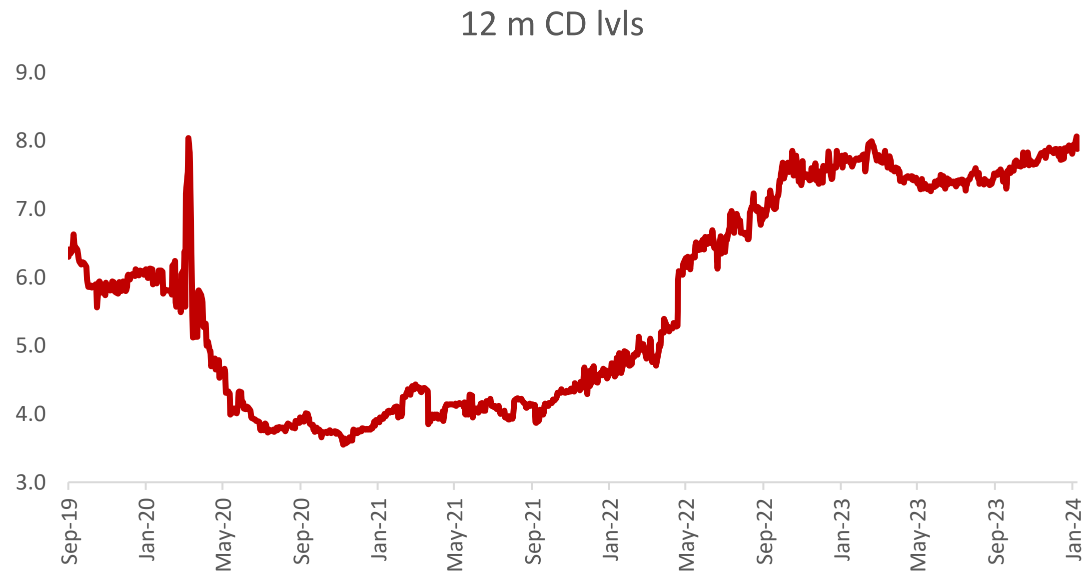
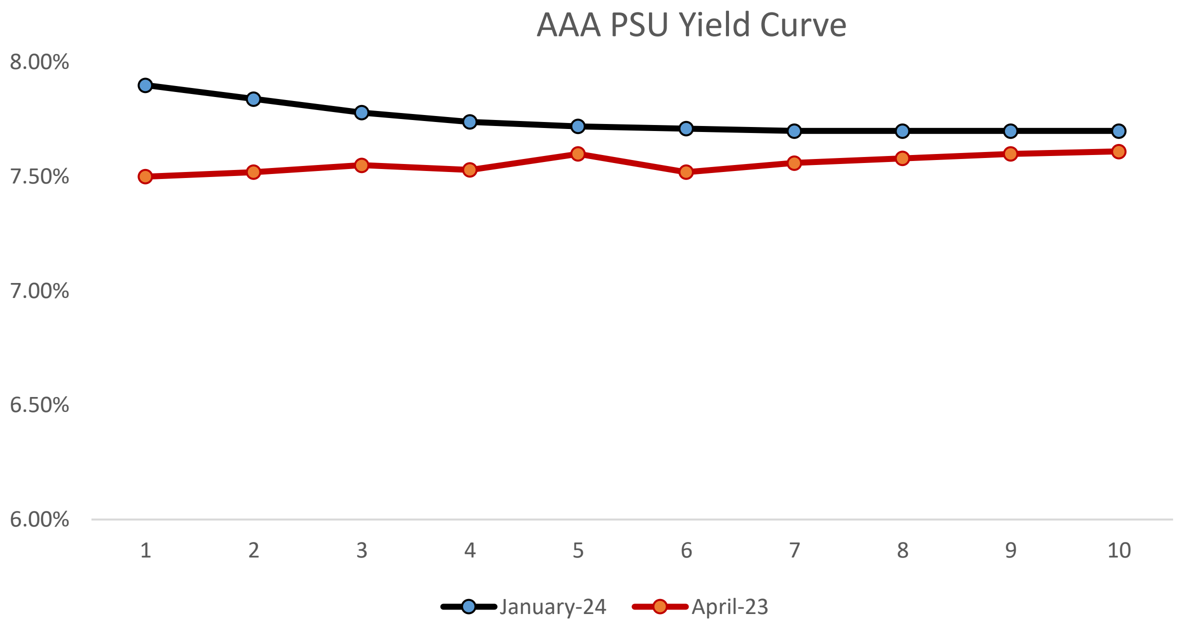
Attractiveness of money market rates

- Attractiveness of money market rates: Various relative value indicators all point towards the money market space being an attractive investment opportunity on the yield curve
- The PSU yield curve at shorter end is higher than April 2023 and offering higher rate than 10 year PSU bonds
- 1 year PSU yields are at 7.90% while 10 year AAA PSU corporate bonds are at 7.70%
- 12 month CDs are currently at 5 year high and NOT DISCOUNTING ANY RATE CUT AT THIS POINT OF TIME





Source: Bloomberg, Valuation Reports
Data updated as on 25 January 2024

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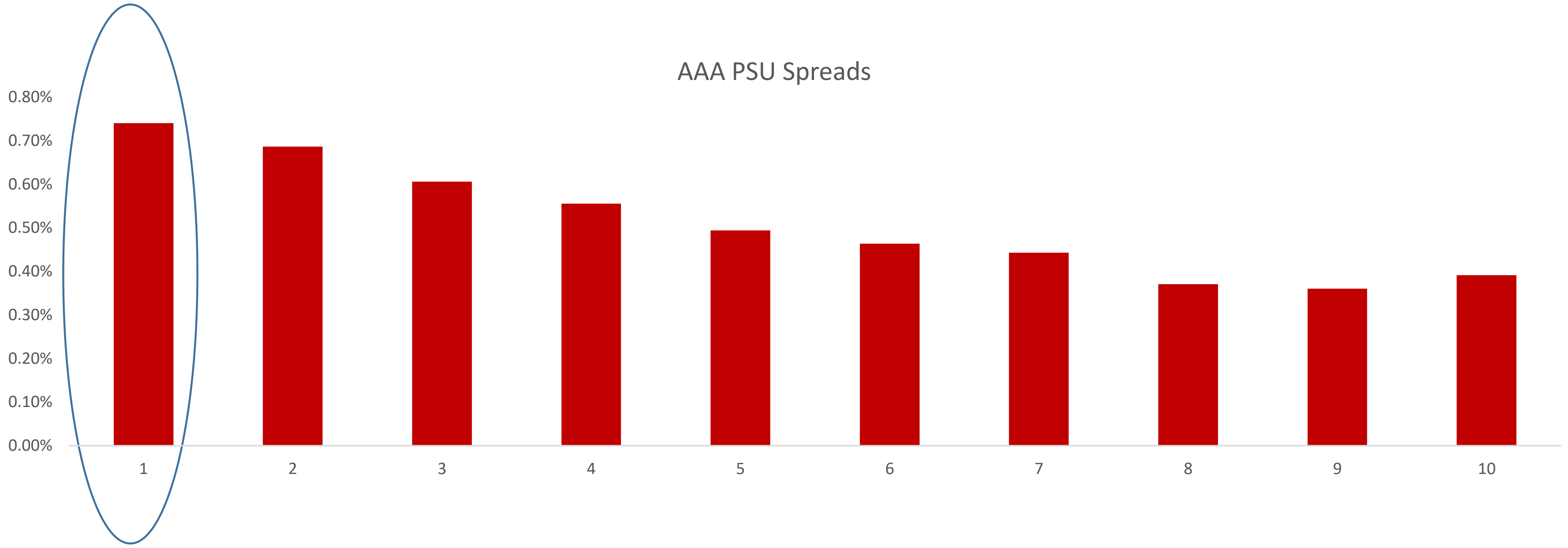
Attractiveness of JFM 24 CD/CPs

AAA PSU spreads over Sovereign – Attractive

- 1 year PSU spreads over 1 year T-bills are at near 75 bps
- This is the highest spread available vs any other point on the curve



Source: Valuation Reports
Data updated as on 25 January 2023

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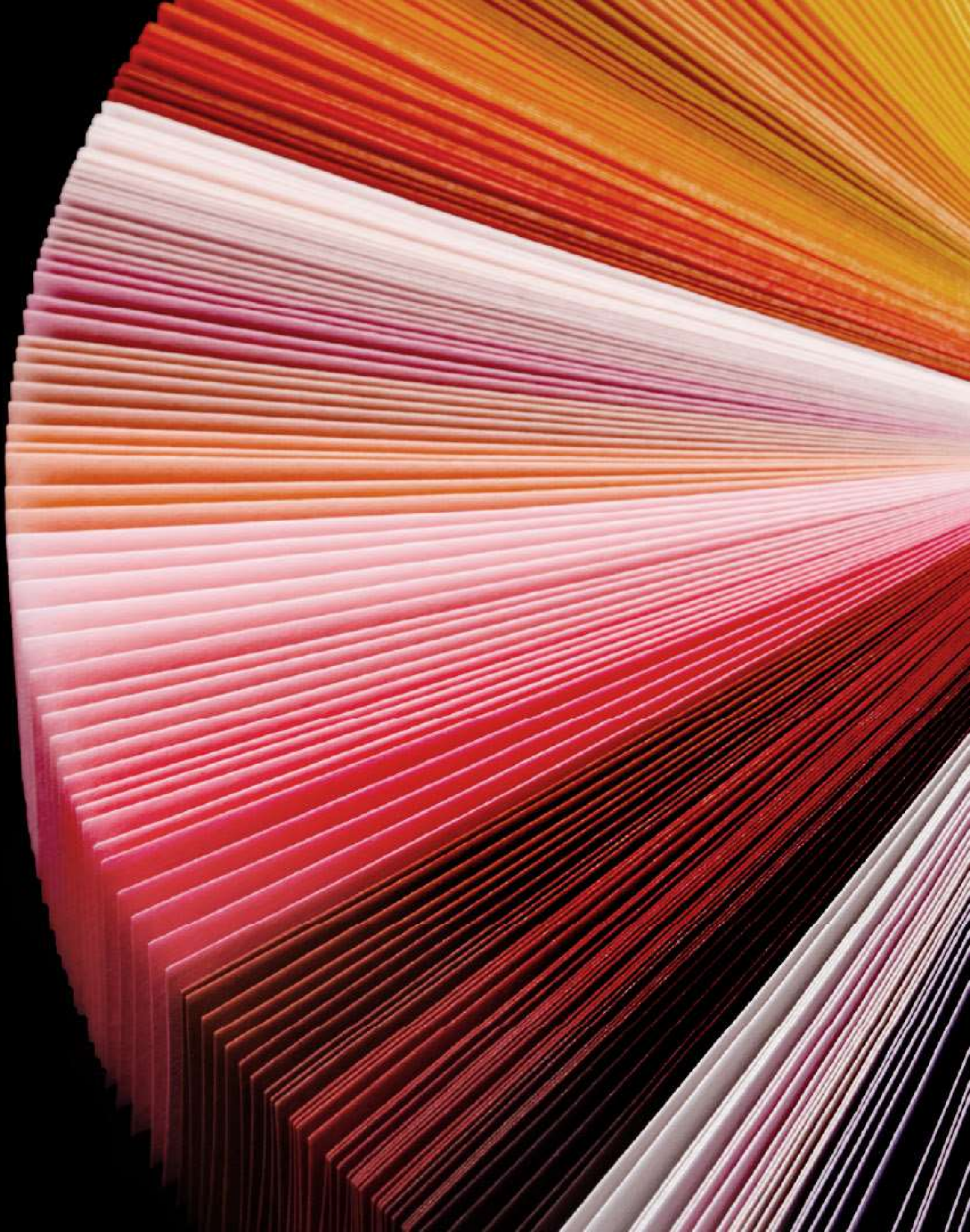
HSBC Money Market Fund – Product to utilize opportunity



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

RISK		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*	Up to 12 months
	Ultra Short Duration Funds	3 to 6 Months
	Liquid Funds	Up to 91 days
	Overnight Funds	Up to 1 business day

RETURN

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Indicates Credit-Oriented products

HSBC Money Market Fund Investment Strategy

HSBC Money Market Fund plans to implement an investment strategy of investing dynamically in upto 1 year maturing securities in a mix of CD/CPs/Tbills

- Our Overview:
  - Repo rate has peaked at 6.50%
  - Liquidity to turn neutral to slightly negative starting Q2 FY 2025; followed by policy rate cuts by RBI
  - Credit/Deposit gap to narrow due to increase in deposit rates
  - Supply from Banks peak out in March 2024

- Strategy:
  - Invest in majority of assets maturing between October 2024 to March 2025 to maximize current attractive rate opportunities
  - Higher maturity vs Liquid fund will help ride the steepness of money market curve on tenor higher than 3 months
  - Investment horizon: 3-6 months

Note : Views are personal. Investors should not consider the same as investment advice. Past performance may or may not be sustained in future and is not a guarantee of any future returns. Please consult your financial advisor for any investment decision.

Scenario Analysis of 9 month CD

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

Investing in a 9 month average maturity with a holding period of 4 months vs investing in a 4 months CD

9 month CD level: 7.85%
5 month CD level: 7.75%
4 month CD level: 7.70%
Investment horizon: 4 months
Today referred to as 'T'
4 months hence referred to as 'T+4m'

5-month CD levels at T+4m	7.25%	7.50%	7.75%	7.90%
Change in 5-month CD levels (T+4m vs T)	-0.50%	-0.25%	0.00%	0.15%
Investment Return (4 months)	8.35%	8.04%	7.73%	7.54%
4-month CD level (at T)	7.70%	7.70%	7.70%	7.70%
Return difference	0.65%	0.34%	0.03%	-0.16%

- If 5 month rates stay at similar levels, the investment can generate returns of around ~7.73%
- Investors with an investment horizon of 3-6 months can benefit from the current attractive money market rates

Calculation is internal and for illustrative purpose only, Levels considered as of 25 January 2024
The above figures are hypothetical and actual figures may vary according to market scenarios

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HSBC Money Market Fund

Fund snapshot and approach

Fund Category	Fund Manager	Benchmark [1, 2]	Inception Date	AUM [3]
Money Market Fund	Kapil Lal Punjabi and Shriram Ramanathan	Nifty Money Market Index B-I	10 Aug 2005	Rs. 10.99 bn

Fund Strategy

- Investment in upto 1-year 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 6-12 month average maturity in a mix of CD/CP/Tbills, given attractive spreads over operating rate

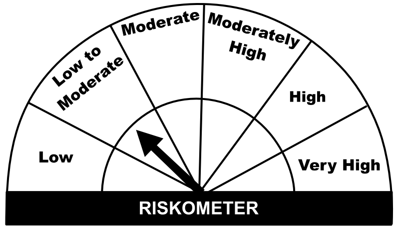
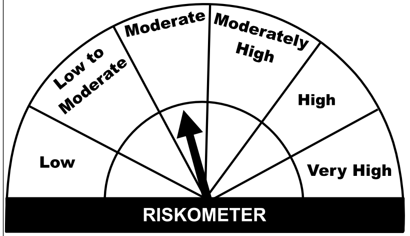
HSBC Money Market Fund	
AUM INR	10.99 bn
Cash equivalents	12.01%
CP	32.47%
CD	52.85%
NCD	0.00%
G-Sec & T-bill	13.05%
Avg. Maturity (in days) ^	119
Mod Duration (in days) ^	119

[1] As per clause 1.9 of the SEBI Master Circular dated May 19, 2023, 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 effective from 01 December 2021. [2] Fund's benchmark has changed with effect from April 01, 2022. Data as on 31 Dec 2023.

Note: The sector(s)/stock(s)/issuer(s) mentioned in this document do not constitute any research report nor it should be considered as an investment research, investment recommendation or advice to any reader of this content to buy or sell any stocks / investments. The Fund/portfolio may or may not have any existing / future position in these sector(s)/stock(s)/issuer(s).

Data as on 15 January 2024, ^ Data as on 31 Dec 2024 [3] For disclosure of quarterly AUM/AAUM and AUM by geography, please visit our website: https://www.assetmanagement.hsbc.co.in/en/mutual-funds/investor-resources/information-library#&accordion1446811090=4,

Product Label

HSBC 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. A 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	Benchmark Index: Nifty Money Market Index B-I 

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

Note on Risk-o-meters: Riskometer is as on 31 December 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

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 31 Jan 2024

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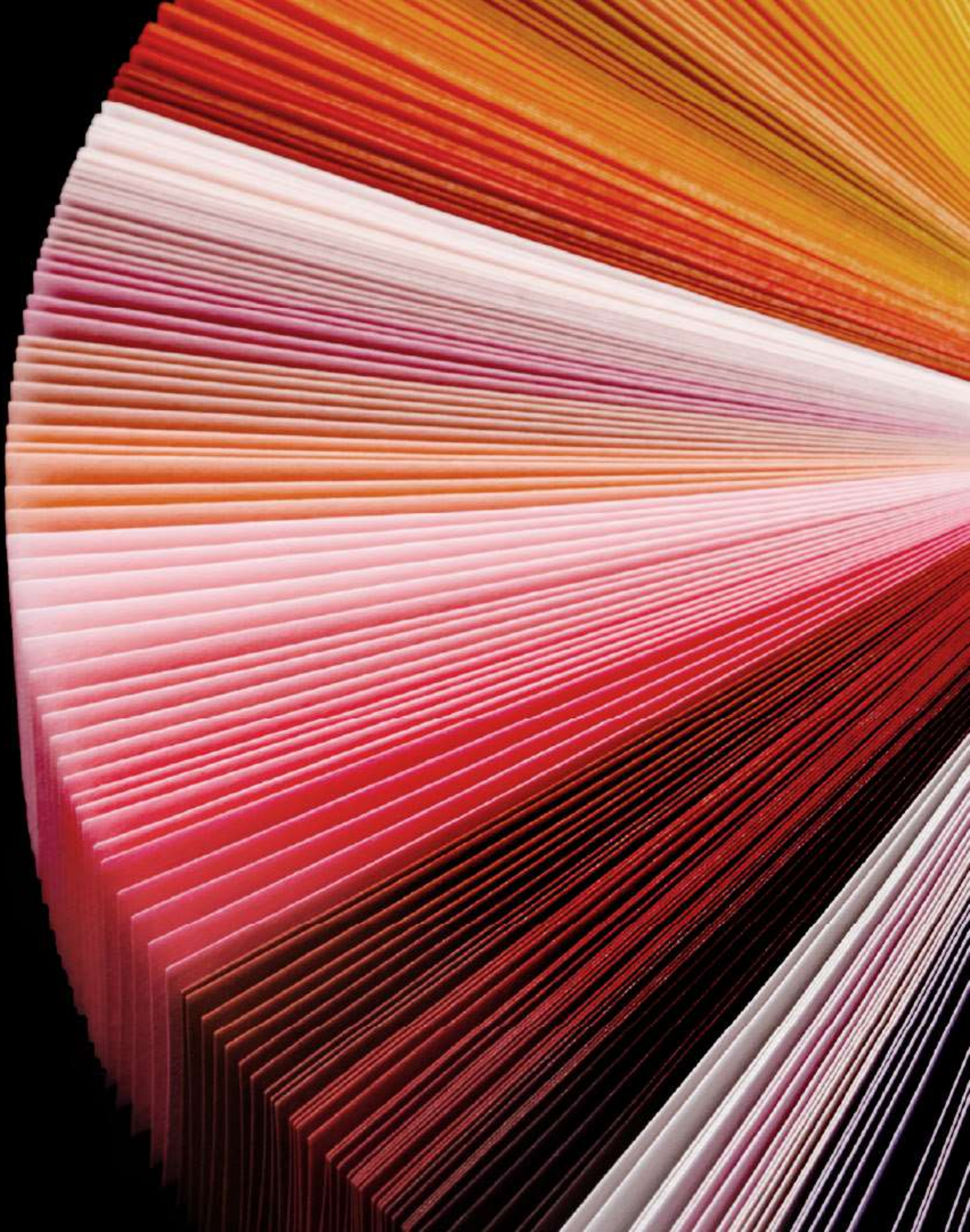
Appendix

HSBC’s process driven investment approach



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HSBC Mutual Fund - Critical size post LTIM merger

Expertise and experience

- HSBC Asset Management (India) Private Limited (part of Global HSBC Asset Management company).
- HSBC Mutual Fund Launched first fund in 1997.
- Managers/sub-advisors of Indian equity and debt assets from more than 25 years.
- Successful completion of integration of L&T Investment Management (LTIM) with HSBC Asset Management (India) Private Limited in Nov 2022.
- 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.

Expertise in managing Indian equity and debt	On the ground presence combined with global oversight
International experience	Differentiated Product offerings

Assets under management / Advisory^

INR 1.33 trln
(USD 16.02 bln)

- HSBC MF AUM*: INR 1036 bln (USD 12.1 bn)
- Advisory (Offshore): INR 331 bln (USD 3.98 bln)

Data as of 31 Dec 2023, Any differences are due to rounding, ^ Assets under management and Advisory of HSBC Asset Management India (HSBC Asset Management (India) Private Limited (HSBC AMC India), * AUM of HSBC Mutual Fund, For detailed AUM disclosure refer to page no. 23. For disclosure of quarterly AUM/AAUM and AUM by geography, please visit our website: https://www.assetmanagement.hsbc.co.in/en/mutual-funds/investor-resources/information-library#&accordion1446811090=4

Fixed Income - Investment Approach

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 • 2 credit analysts with ~ average 15 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

Fixed Income - 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) Private Limited. The information above is provided by and represents the opinions of HSBC Global Asset Management and is subject to change without notice

Credit 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

Early Warning Signals (EWS) : 5-Factor process

Alerts are broadly classified into 5 parameters

- As part of as per CHAPTER 4: RISK MANAGEMENT FRAMEWORK of SEBI Master Circular on Mutual Funds dated May 19, 2023, AMCs were required to take appropriate measures to capture Early Warning Signals (EWS) and report the same to trustees in case of alerts deemed material enough (see excerpt of circular below).
- Adequate provisions to generate early warning signals (including yield based alerts) on deterioration of credit profile of the issuer. Based on the alerts generated, the AMCs shall take appropriate measures and report the same to trustees.
- Prior to the above circular, credit team captured alerts on an as-and-when basis and reported the same to fund management team.
- As a result of the above circular, a more rigorous and enhanced process to capture EWS alerts was instituted to further strengthen the credit risk monitoring framework
- The 5-factor EWS monitoring framework as shown alongside captures all the daily events linked to issuers
- 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.

Intertwining the EWS process with regular credit updates strengthens our credit risk monitoring framework

Assets Under Management (AUM)

Asset class wise disclosure of AUM & AAUM Rs. in Lakhs		
Category	**AUM as on the last day of the Quarter**	**Average AUM for the Quarter**
Income	2,034,563.74	2,120,232.03
Equity (other than ELSS)	5,790,543.12	5,414,442.71
Balanced	0.00	0.00
Liquid	1,766,809.13	2,266,045.63
Gilt	21,382.56	21,219.27
Equity ELSS	377,318.66	356,566.88
GOLD ETF	0.00	0.00
Other ETF	0.00	0.00
Fund of Funds investing overseas	26,817.60	25,412.11
Total	10,017,434.80	10,203,918.65
Fund of Funds investing Domestic	12,618.95	12,357.24

Disclosure of percentage of AUM by geography	
GEOGRAPHICAL SPREAD	**% of Total AUM as on the last day of the Quarter**
Top 5 Cities	79%
Next 10 Cities	13%
Next 20 Cities	5%
Next 75 Cities	3%
Others	0%
Total	100%

Data as of 31 Dec 2023, Any differences are due to rounding, Mutual Fund – MF

Disclaimer

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GST - 27AABCH0007N1ZS, Website: www.assetmanagement.hsbc.co/in

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

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