HSBC Asset Management

FOCUS FUND

HSBC Low Duration Fund (HLDF)

Low Duration Fund - An open ended low duration debt scheme investing in instruments such that the Macaulay duration^ of the portfolio is between 6 months to 12 months. [1] Please refer Page no. 9 of the SID for explanation on Macaulay duration. Relatively low interest rate risk and moderate credit risk.

April 2022

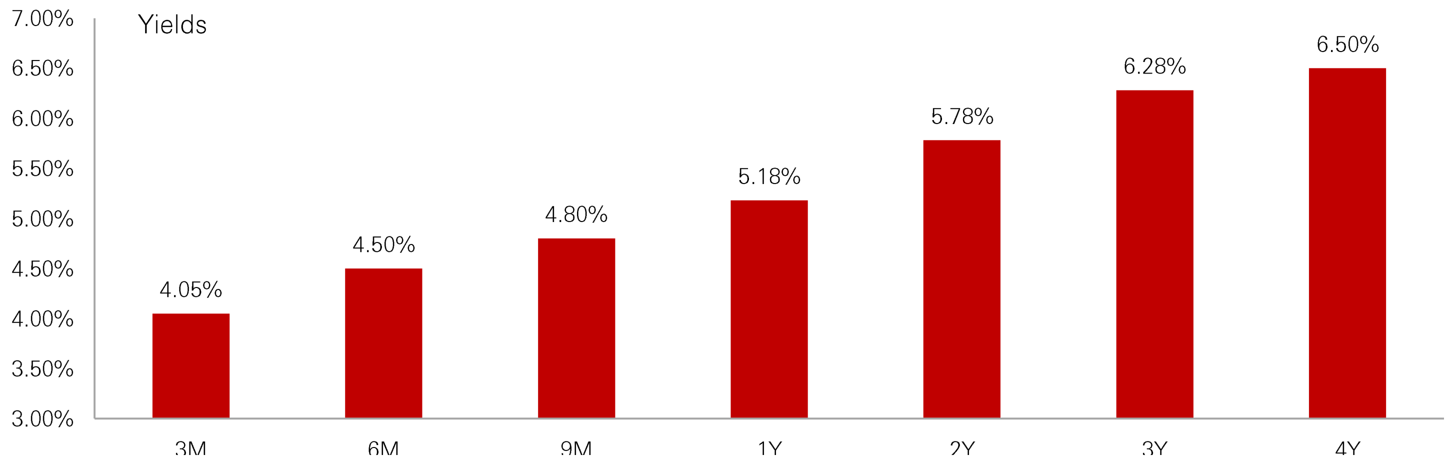
View on Low Duration segment

Calibrated policy sequencing inflation over growth

- RBI also decided to introduce the Standing Deposit Facility (SDF) as the floor of the LAF corridor, The SDF rate will be 25 bps below the repo rate, and it will be applicable to overnight deposits at this stage. This move effectively hike operating rate by 40 bps as operating rate will now move away from reverse repo rate of 3.35% to SDF rate of 3.75%
- The RBI monetary policy committee unanimously decided calibrate the policy stance to "remaining accommodative while at the same time focusing on withdrawal of accommodation". Further the stance of the monetary policy mentioned that the objective of the RBI policy would be to ensure "inflation remains within the target going forward while supporting growth" unlike in earlier RBI policy where it was mentioned that the "accommodative stance will continue as long as it is required to sustain growth" while maintaining inflation within the targeted band. This sequencing of inflation over growth was reiterated by the governor in the press conference. This change in stance would mean RBI will lift off rates in upcoming June policy meetings
- **Liquidity calibration and normalization of reverse repo – repo rate corridor has been being priced in for sometime**
- RBI introduced 3 day VRRRs in end December 2021 in addition to 28 day VRRRs, 7 day VRRRs and 14 day VRRs to absorb liquidity further as longer tenor VRRRs were not fully utilized by banks. Post this, the overnight rates have inched up and have remained volatile with free liquidity (not absorbed in VRRRs) reducing significantly. With increase in overnight rates, we had also seen further inching up of 2 yr part of the curve discounting future RBI rate action. Up to 2 yr assets have inched up further by 25 bps since RBI policy meet on 8th April 2022; this is on top of near 25bps-50bps upmove seen since introduction of VRRR.

Steepness in the curve up to 2 years offers attractive carry

- Steepness between 2 year and 1 year point on the curve remains attractive at 60 bps and between 1 year and 3m at ~110 bps. Even if RBI hikes repo rate by 100-125bps by 2H 2023, current 1yr AAA rate at ~5-5.10% and 2 yr at ~5.65-5.75% offer sufficient steepness factoring in normalization of policy rates



[1] 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. Source: HSBC Asset Management, India, Data as of 31 March 2022

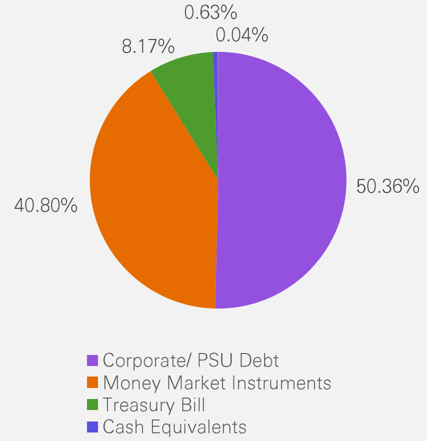
^ The Macaulay duration is the weighted average term to maturity of the cash flows from a bond. The weight of each cash flow is determined by dividing the present value of the cash flow by the price. Please refer to the page number 9 of the Offer Document on which the concept of Macaulay's Duration has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

Portfolio

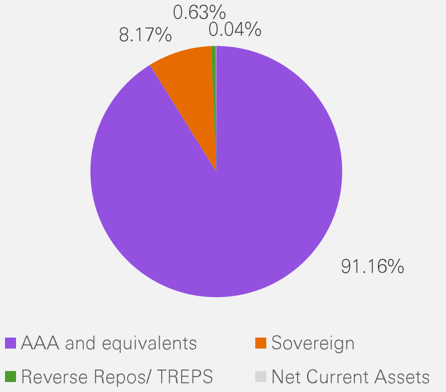
Issuer	Rating	% to Net Assets
Money Market Instruments		
Certificate of Deposit		**40.80%**
HDFC Bank	CARE A1+	10.20%
Bank of Baroda	FITCH A1+	10.20%
Small Industries Development Bk of India	CRISIL A1+	10.20%
National Bk for Agriculture & Rural Dev.	CRISIL A1+	10.20%
Corporate/ PSU Debt		
Corporate Bonds / Debentures		**50.36%**
Power Grid Corporation of India	CRISIL AAA	11.88%
Housing Development Finance Corp	CRISIL AAA	10.78%
LIC Housing Finance	CRISIL AAA	10.62%
Bajaj Finance	CRISIL AAA	10.59%
HDB Financial Services	CRISIL AAA	4.33%
L&T Finance	CRISIL AAA	2.16%
Treasury Bill		**8.17%**
364 DAYS TBILL RED 16-02-2023	SOVEREIGN	6.13%
364 DAYS TBILL RED 02-03-2023	SOVEREIGN	2.04%
Cash Equivalent		0.67%
TREPS*		**0.63%**
Net Current Assets:		**0.04%**
Total Net Assets as on 31-Mar-2022		**100.00%**

*TREPS : Tri-Party Repo

Asset Allocation



Rating Portfolio



Current Fund Strategy

- The entire Money-market curve is centric to the overnight funding cost.
- The overnight funding cost should move above the SDF rate of 3.75% going forward.
- There could be bouts of volatility as RBI continues the process of liquidity normalization; however, the steepness in the curve remains from the overnight rate to the 1-2 yr segment, offering attractive opportunity in terms of carry and roll-down.
- Neutral duration stance is maintained in Low Duration fund, given steepness in the yield curve up to 2 years.

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

Rationale on existing credit exposures* (Top 5)

1. **Power Grid Corporation of India Ltd.:** PGCIL was incorporated in 1989 to set up extra-high voltage alternating current and high-voltage direct current (HVDC) transmission lines. The company moves large blocks of power from the central generating agencies and areas that have surplus power to load centres within and across regions. It is under the administrative control of the Ministry of Power, GoI. The company owns and operates an extensive nationwide network of transmission lines, which mainly comprise 400-kilovolt transmission lines and HVDC transmission systems, carrying more than 45% of the total power generated in India. It owns about 85% of the interstate transmission network. The regulatory framework is structured by Central Electricity Regulatory Commission (CERC), which helps to generate stable revenue and cash flow. Tariff recovery is linked to transmission network availability maintained by the company and is not impacted by actual power transmitted through the network that could be extraneous to its control. Also, the tariff structure ensures recovery of all expenses, including debt-servicing charges, and provides for a fixed return on equity (RoE), if the company adheres to operational benchmarks. The tariff structure also ensures recovery of annual obligation for debt contracted to finance capex in transmission projects and funded in a debt-to-equity mix of 70:30.

2. **Housing Development Finance Corporation Limited:** As the largest housing finance company in India, HDFC has been recording profitable growth over the past 44 years in the individual housing and corporate segments. Though entry of new players and greater focus by banks on this segment have intensified competition, HDFC has maintained its market share. As on September 30, 2021, its loan book stood at Rs 5,20,798 crore, a growth of 10% over the previous fiscal (Rs 4,75,121 crore as on September 30, 2020; Rs 4,98,298 crore as on March 31, 2021). The company also has a sizeable presence in other financial services, including life insurance, general insurance, AMC and education financing, through subsidiaries. Overall asset quality remains healthy with gross stage 3 assets (GS3) as on September 30, 2021, at 2.50% (2.34% as on March 31, 2021, 2.29% as on March 31, 2020, and 1.41% as on March 31, 2019).

3. **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

4. **Bajaj Finance Ltd:** Bajaj Finance is the flagship NBFC of the Rahul Bajaj group having a diversified loan book with exposure in various segments like consumer finance, SME finance, commercial finance and rural finance. Strong parentage of Bajaj group, strong scale up over the past few years coupled with high profitability while maintaining good asset quality at the same time are positives from a credit standpoint. The company is well capitalized and has a strong resource profile. Company has carved a niche for itself in areas such as consumer financing with strong manufacturer dealer relationships and wide presence. Company has also focused on cross selling significantly to its own customer base which further enhances its profitability.

5. **Bank of Baroda:** Bank of Baroda is among India's five largest banks by asset size with total assets of Rs 11,97,053 crore as on December 31, 2021 (Rs 11,55,365 crore as on March 31, 2021). On the deposits front too, the bank has maintained a substantial share with Rs 9,78,034 crores of deposits as of December 31, 2021. As on December 31, 2021, the bank's gross advances stood at Rs 7,71,994 crore, up 3.6% Y-o-Y, of which 85% were domestic while the remaining 15% were international loans. On the asset quality front, the bank reported an improvement in its Gross non-performing assets (GNPA) to 7.25% as on December 31, 2021 from 8.11% as on September 30, 2021 despite the challenging environment.

Source: HSBC Asset Management, India, Data as of 31 March 2022

Investment Objective:

To seek to provide liquidity and reasonable returns by investing primarily in a mix of debt and money market instruments such that the Macaulay duration of the portfolio is between 6 months to 12 months. However there can be no assurance or guarantee that the investment objective of the scheme would be achieved.

Fund Details

Fund Manager[3]
Kapil Punjabi

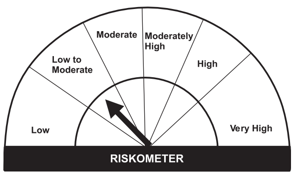
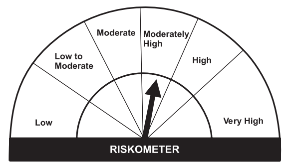
AUM (as on 31.03.22)
235.5 Cr

Average Maturity	0.99 year
Modified Duration	0.96 year
Macaulay Duration	0.98 year
Yield to Maturity [2]	4.92%

Benchmark
CRISIL Low Duration Debt Index [4]

Inception Date
17 October 2006

Exit Load
NIL

HSBC Low Duration Fund Riskometer		
HSBC Low Duration Fund	**Low Duration Fund** - An open ended Low Duration Debt Scheme investing in instruments such that the Macaulay^ duration of the portfolio is between 6 months to 12 months. Please refer Page no. 9 of the SID for explanation on Macaulay duration. Relatively low interest rate risk and moderate credit risk.	Benchmark: CRISIL Low Duration Debt Index
 Investors understand that their principal will be from Low to Moderate risk	This product is suitable for investors who are seeking##: • Liquidity over short term. • Investment in debt and money market instruments such that the Macaulay^ duration of the portfolio is between 6 months to 12 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.	

Potential Risk Class (HSBC Low Duration Fund)			
Credit Risk → **Interest Rate Risk ↓**	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
Relatively Low (Class I)		**BI**	
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.

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

Disclaimer:

This document has been prepared by HSBC Asset Management (India) Private Limited (HSBC) for information purposes only and should not be construed as i) an offer or recommendation to buy or sell securities, commodities, currencies or other investments referred to herein; or ii) an offer to sell or a solicitation or an offer for purchase of any of the funds of HSBC Mutual Fund; or iii) an investment research or investment advice. It does not have regard to specific investment objectives, financial situation and the particular needs of any specific person who may receive this document. Investors should seek personal and independent advice regarding the appropriateness of investing in any of the funds, securities, other investment or investment strategies that may have been discussed or referred herein and should understand that the views regarding future prospects may or may not be realized. In no event shall HSBC Mutual Fund/HSBC Asset management (India) Private Limited and / or its affiliates or any of their directors, trustees, officers and employees be liable for any direct, indirect, special, incidental or consequential damages arising out of the use of information / opinion herein.

This document is intended only for those who access it from within India and approved for distribution in Indian jurisdiction only. Distribution of this document to anyone (including investors, prospective investors or distributors) who are located outside India or foreign nationals residing in India, is strictly prohibited. Neither this document nor the units of HSBC Mutual Fund have been registered under Securities law/Regulations in any foreign jurisdiction. The distribution of this document in certain jurisdictions may be unlawful or restricted or totally prohibited and accordingly, persons who come into possession of this document are required to inform themselves about, and to observe, any such restrictions. If any person chooses to access this document from a jurisdiction other than India, then such person do so at his/her own risk and HSBC and its group companies will not be liable for any breach of local law or regulation that such person commits as a result of doing so.

HSBC Mutual Fund, 9-11th Floor, NESCO - IT Park Bldg. 3, Nesco Complex, Western Express Highway, Goregaon East, Mumbai 400063. Maharashtra.
GST - 27AABCH0007N1ZS, Email: hsbcmf@camsonline.com | Website: www.assetmanagement.hsbc.co/in

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