12 May 2020

Product Focus

HSBC 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.

Fund Manager

Kapil Punjabi

Our view

We believe current risk reward is favourable for the segment and the fund will be positioned only in the liquid and quality part of the curve. It is ideal for investors who are looking to invest for a time horizon of 1 year to invest in the fund.

Fund positioning and strategy

The fund focusses on high quality credits and optimal liquidity

HSBC Low Duration Fund is ideal for investors who are looking to invest for a time horizon of 1 year. The fund is focused on the front part of the curve with modified duration of the portfolio restricted to 12 months (the Macaulay Duration of the Portfolio will be between 6-12 months).

RBI's accommodative stance and liquidity infusion has made money market current yields very attractive over the policy rate. RBI's action (TLTROs & OMOs) led to material infusion of liquidity, taking the system liquidity to Rs.5.5 trillion towards the close of the month into May '20. Liquidity in system has been steadily increasing and we expect the surplus liquidity situation to continue in the near term. Therefore, we believe current risk reward is favourable for the segment and the fund will be positioned only in the liquid and quality part of the curve.

Fund portfolio

Name of the Instrument	Rating*	Type	Percentage to Net Assets
8.5% SIDBI NCD RED 21-06-2021	CARE AAA	Corporate Bonds / Debentures	18.01%
TREPS_RED_11.05.2020		TREPS	17.50%
INDUSIND BANK LTD CD RED 11-02-2021	CRISIL A1+	Certificate of Deposit	16.48%
7.87% HDFC LTD NCD RED 18-07-2022	CRISIL AAA	Corporate Bonds / Debentures	11.84%
7.14% REC LTD NCD RED 09-12-2021	CRISIL AAA	Corporate Bonds / Debentures	11.71%
7.7% ORIX LEASING & FIN SER NCD 21-09-20	FITCH AAA	Corporate Bonds / Debentures	11.59%
AXIS BANK LTD CD RED 05-02-2021		Certificate of Deposit	11.22%
Cash & Other Receivables		Cash and equivalents	1.65%
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	29.1
6 months - 1 year	45.7
1 - 2 years	23.6
Cash & receivables	1.6
Total	**100**

Portfolio duration
Fund is overweight on papers with modified duration of 6 months to 1 year with allocation of 45.7%. Allocation to instruments with less than 6 months modified duration is about 29.1%.

Rating exposure	% of portfolio
AAA/A1+	80.9
TREPS	17.5
Cash & receivables	1.6
Total	**100**

Rating exposure
Fund has highest exposure of 80.9% to papers with AAA/A1+ rating with allocation to cash equivalent and TREPS at 18.1%.

HSBC Low Duration Fund	
Maturity (in months)	10.98
YTM	6.19%
Modified Duration (months)	9.92

Data as of 8 May 2020

Rationale on existing credit exposures

1. **Axis Bank Ltd.**: One of the largest private bank with a well-diversified retail book, strong CASA and healthy capitalization position. Given proven ability to raise capital and strong franchise, negative from an asset quality stress is expected to be offset by the improved capital position. Also, asset quality performance has been relatively better in the banking sector. Overall, bank's large size, proven ability to raise capital, good resource profile lend comfort to the credit profile. While recent earnings profile has been subdued, we believe that it is only a reflection of bank's prudence to preserve capital and make adequate provisions in the wake of recent economic situation and therefore not a cause of expectation of any material credit deterioration.

2. **IndusInd Bank**: IndusInd Bank has an aggregate business of over INR 4 trillion, reasonable capital base and well contained asset quality. The recent results suggest that entity has a stable financial profile reflected in its healthy capital ratios, manageable asset quality, robust liquidity and ability to regain deposit traction. Management has been prudent in terms of asset quality, with very high provisioning reflected in less than 1% net NPA. The loan book is well diversified and coupled with capital, there is a reasonable ground to suggest that asset quality shocks can be absorbed. There has been no rating action until date. Rating is AA+ for Infra bonds and AA for Tier-1 bonds by CRISIL and India Ratings. Strong and robust liquidity in the system suggest that banks will not have any liquidity shortage in the near to medium term.

3. **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.

4. **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

5. **Rural Electrification Corporation (REC)**: REC is a public financial institution under the administrative control of Ministry of Power. Until 2003, REC's primary objective was to provide financial assistance on concession to SPUs for rural electrification. RECs mandate was broadened in 2003 to include financing of all segments of the power sector. It provides financial assistance to state electricity boards (SEBs) for financing transmission, distribution and generation projects. REC's credit profile derives strength from government ownership and support it receives from it. The credit profile is also supported by its good resource profile and adequate capitalization and profitability. Entity's asset quality issues are likely to have bottomed out. Post-acquisition of REC by Power Finance Corporation (PFC), rating agencies have reaffirmed both entities 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.

6. **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.

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

Fund NAVs

Plans	NAV
HSBC Low Duration Fund - Growth Option	14.30
HSBC Low Duration Fund - Regular Plan Growth Option	20.59
HSBC Low Duration Fund - Direct Plan Growth Option	15.09
HSBC Low Duration Fund - Monthly Dividend Option	8.78
HSBC Low Duration Fund - Daily Dividend	8.69
HSBC Low Duration Fund - Regular Plan Weekly Dividend Option	8.64
HSBC Low Duration Fund - Direct Plan Daily Dividend Option	8.79
HSBC Low Duration Fund - Direct Plan Weekly Dividend Option	8.79
HSBC Low Duration Fund - Direct Plan Monthly Dividend Option	9.02
HSBC Low Duration Fund - Weekly Dividend	8.70
HSBC Low Duration Fund - Regular Daily Dividend Option	8.63

Data as of 8 May 2020

HSBC 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.

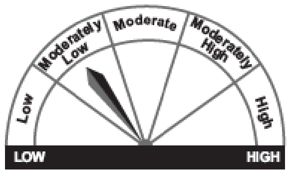
Investment Objective: To seek to provide liquidity and reasonable returns by investing primarily in a mix of debt and money market instruments such that the Macaulay duration of the portfolio is between 6 months to 12 months. However there can be no assurance or guarantee that the investment objective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

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.**

Riskometer



Investors understand that their principal will be at Moderately Low risk

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