



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.

January 2022

View on Low Duration segment

Accommodative but cautious RBI

- Unanimous decision by MPC (Monetary Policy Committee) in December maintaining Status quo on rates and 5-1 vote in favor of retaining accommodative stance. However, RBI announced that it would increase fortnightly 14-day variable rate reverse repo (VRRR) in a gradual manner to up to INR 7.5 lakh crores by end December 2021 (from current INR 6 lakh crores). However, the window has not been fully utilized by banks as banks have preferred to park surpluses in shorter tenor VRRRs.

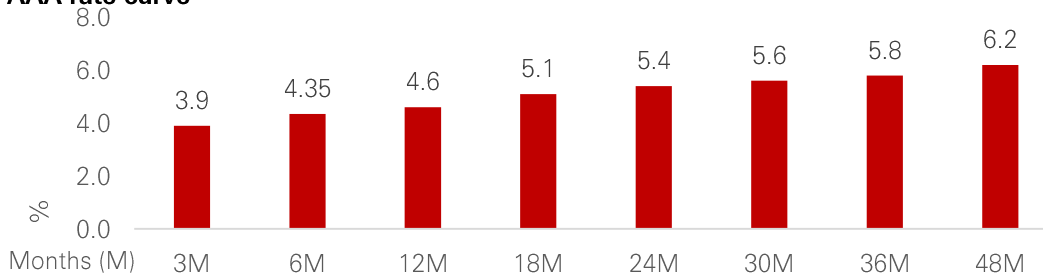
Liquidity calibration and normalization of reverse repo – repo rate corridor being priced in; overnight rates have inched up

- 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 have also seen further inching up of 2 yr part of the curve. Up to 2 yr assets have inched up further by 10-15 bps in the past one month post the move upwards by 20-25 bps in November- December and are pricing in liquidity calibration and normalization of repo rate reverse repo rate corridor

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 50 bps and between 1 year and 3m at ~60 bps. Even if RBI normalizes the corridor between reverse repo and repo rate by hiking the reverse repo rate and normalizes conditions, current 1yr AAA rate at ~4.70-4.80% and 2 yr at ~5.30-5.40% offer sufficient steepness factoring in normalization of liquidity conditions

AAA rate curve



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 December 2021

[^] 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

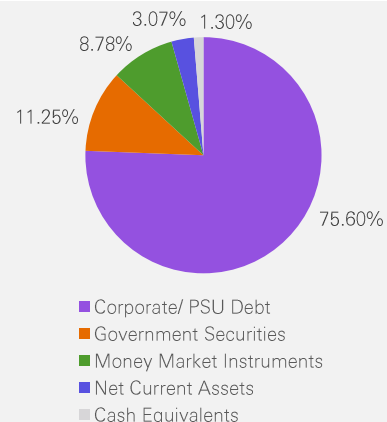
Portfolio

Issuer	Rating	% to Net Assets
Money Market Instruments		
Certificate of Deposit		8.78%
Axis Bank	CRISIL A1+	8.78%
Corporate/ PSU Debt		
Corporate Bonds / Debentures		70.88%
National Bk for Agriculture & Rural Dev.	CRISIL AAA	9.29%
Export Import Bank of India	CRISIL AAA	9.24%
Reliance Industries	CRISIL AAA	9.15%
L & T Finance	CRISIL AAA	9.03%
REC	CARE AAA	6.87%
Power Finance Corporation	CRISIL AAA	6.86%
HDB Financial Services	CRISIL AAA	6.82%
Housing Development Finance Corp	CRISIL AAA	6.82%
Bajaj Finance	CRISIL AAA	4.46%
Power Grid Corporation of India	CRISIL AAA	2.34%
Zero Coupon Bonds		4.72%
LIC Housing Finance	CRISIL AAA	4.72%
Government Securities		11.25%
8.20% GOVT OF INDIA RED 15-02-2022	SOVEREIGN	11.25%
Cash Equivalent		4.37%
TREPS*		0.43%
Reverse Repos		0.87%
Net Current Assets:		3.07%
Total Net Assets as on 31-Dec-2021		100.00%

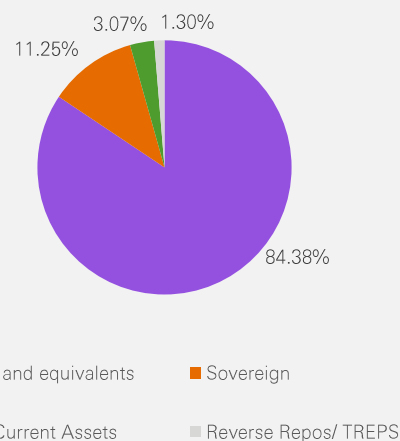
*TREPS : Tri-Party Repo



Asset Allocation



Rating Portfolio



Current Fund Strategy

- The entire Money-market curve is centric to the overnight funding cost which is marginally above the reverse-repo rate for now.
- There have been bouts of volatility in recent months as RBI has absorbed increased quantum through variable rate reverse repo (VRRR) auctions of 3-day, 7-day, 14-day and 28-day tenors which has resulted in the money market curve inching upwards.
- Nevertheless, despite phased increase in variable reverse repo rate (VRRR) auction, overall liquidity is likely to stay comfortable in the near term.
- However, the liquidity that goes into fixed reverse repo at 3.35% has dropped. Going into 2022, we may see the prospects of liquidity reversal firming up.
- While we have seen yields move up in Assets in the 1 to 2-year part of the curve, it still remains attractive from a steepness perspective and will benefit from carry and roll-down.
- The strategy in the Low Duration Fund is to maintain neutral duration eyeing accrual and roll-down gains taking advantage of the steepness in the curve.

Rationale on existing credit exposures* (Top 5)

- 1. 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.
- 2. EXIM Bank:** 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.
- 3. Reliance Industries:** The company's large size and established presence in the crude oil refining and leadership position in the domestic petrochemical industries, huge cash and liquid investments and being net cash at a consolidated level, lends a strong financial profile to the name. In addition, the entity has industry leading refining margins, comfortable gearing, low working capital intensity are some of the additional factors which give comfort on the name. Further, the company's capex cycle in non telecom businesses is nearing its end which gives visibility on free cash flows going forward. Entity has cemented a strong Leadership position in the domestic petrochemical industry and integrated operations across E&P, refining, and petrochemical businesses. It is the industry leading margins in the refining business, healthy profitability of the petchem business which is expected to further improve going forward. It has healthy debt metrics which is expected to improve further with generation of free cash flow post completion of capex cycle. Recent stake sales in Jio, trending the company to a net debt free status is another over-riding comfort on the name. Recently announced demerger is unlikely to have a credit impact as it only strengthens the standalone profile and makes it more attractive for strategic investors in future which should enhance the company's financial standing.
- 4. 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.
- 5. Axis Bank:** It is the third-largest private sector bank with a diverse business mix as reflected in a well-spread out loan portfolio with more than half of it being granular retail. Capitalisation for Axis Bank is at healthy levels and the bank has demonstrated its ability to raise equity capital from the markets, both debt and equity side. Overall, the bank's large size, proven ability to raise capital and good resource profile are the key positive drivers for investing in the bank. In addition, large size also lends the bank its systemic importance which is an overriding comfort.

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

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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 Manager³

Kapil Punjabi



AUM (as on 31.12.21)

223.55 Cr



Average Maturity | 0.70 year

Modified Duration | 0.65 year

Macaulay Duration | 0.68 year

Yield to Maturity² | 4.44%



Benchmark

CRISIL Low Duration Debt Index⁴



Inception Date

17 October 2006



Exit Load

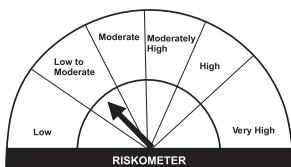
NIL

HSBC Low Duration Fund Riskometer

HSBC Low Duration Fund

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Benchmark: CRISIL Low Duration Debt Index



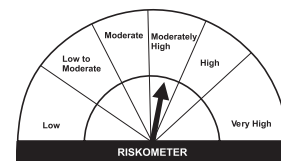
Investors understand that their principal will be from Low to Moderate risk

This product is suitable for investors who are seeking^{##}:

- Liquidity over short term.
- Investment in debt and money market instruments such that the Macaulay^A 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)

Moderate (Class II)

Relatively High (Class III)

BI

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 December 2021

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

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