HSBC Mutual Fund

In a surprise move last week, Lok Sabha passed key amendments to the Finance Bill 2023. One of the amendments proposed was to remove the Long Term Capital Gains (LTCG) along with indexation benefit for non-equity mutual funds including debt mutual funds.

The below FAQs can be used to address any queries you may get from your investors -

1. **Can you tell me more about the amendment?**
   As per the amendment, taxation of capital gains for investors in funds which have less than 35% of their Assets Under Management (AUM) in domestic equities will be classified as Short Term Capital Gains (STCG) irrespective of their period of holding. This will be applicable to investments made on or after 1st April 2023.

2. **Will the investments made in debt schemes prior to 1st April 2023 also get taxed at STCG? Should I redeem my existing investments in the debt schemes before 1st April 2023?**
   No, all the investments made in debt schemes prior to 1st April 2023 will be grandfathered. Investors will be able to claim LTCG benefit along with indexation on those investments made prior to 1st April 2023.

3. **Do I have time to invest in debt schemes before the new tax amendments become applicable?**
   Investors have time till 31st March 2023 to invest in debt funds and take the existing benefit of LTCG along with indexation. All the investments made on or before the cut off timing of 31st March 2023 will be able to reap the benefits of LTCG taxation.

4. **What is the difference between tax regime for investments made in debt schemes before and after 1st April 2023?**
   Below is the taxation difference

Taxation on Investments made on or before 31st March 2023			
	Financial Year	**CII**	**Amount in Rs.**
Purchase	2015-16	254	100000
Redemption	2021-22	317	160000
	Cost with indexation	1,00,000*317/254 = Rs. 1,24,803	
	Tax on LTCG with indexation @ 20%	**(1,60,000-1,24,803) *20% = Rs. 7039**	

Taxation on Investments made on or after 1st April 2023	
	Amount in Rs.
Purchase	100000
Redemption	160000
Tax on STCG @ 30%*	**(1,60,000-1,00,000) *30% = Rs. 18,000**

CII: Cost Inflation Index; *Highest tax slab @ 30% is considered. Excludes any surcharges

5. **What should I do now?**

Investors intending to invest in the debt schemes and were deferring the decision to later months (say April 2023) should invest before 31st March 2023 to avail the LTCG taxation benefit along with indexation. One can take advantage of prevailing high yields for investing the money for long term given the expectation of a likely turnaround of the interest rate cycle in near term.

Our positive outlook in the fixed income space is underscored by:

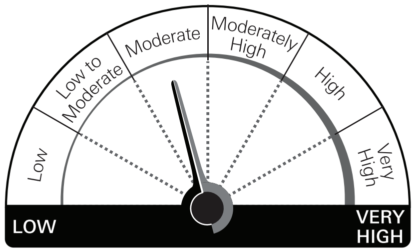
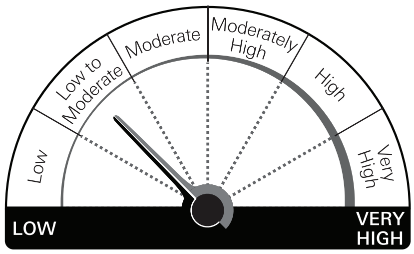
- The next few years are likely to be good for fixed income investors given that interest rates across the maturity spectrum are now well above 7%
- While markets will continue to assess growth vs inflation risks, both globally and in India, we believe we are close to the peak of the rate hiking cycle with risks of RBI hiking rates above 7% being fairly low
- In our view, the waiting game for fixed income investors is now over with the risk–reward turning in favor of careful deployment into certain areas which offer the best risk adjusted returns

Our product offerings-

Index products:	Average Maturity	YTM%	Modified Duration (Months)
HSBC CRISIL IBX 50-50 Gilt Plus SDL Apr 2028 Index Fund	53.62	7.49	43.79
Duration products:			
HSBC Short Duration Fund	27.69	7.59	23.84
HSBC Gilt Fund	85.20	7.29	60.91
HSBC Dynamic Bond Fund	57.55	7.57	43.49
Accrual plus Duration products:			
HSBC Medium Duration Fund	47.86	8.08	36.27
HSBC Corporate Bond Fund	67.80	7.54	52.04
HSBC Banking and PSU Debt Fund	35.13	7.50	30.02

Note:

1) YTM, Average Maturity and Modified Duration has been calculated based on Invested Amounts
2) Data as on 24 March 2023.

Product Label	Risk-o-meter
This product is suitable for investors who are seeking": **HSBC CRISIL IBX 50:50 Gilt Plus SDL Apr 2028 Index Fund** (Index Fund) - An open-ended Target Maturity Index Fund tracking CRISIL IBX 50:50 Gilt Plus SDL Index – April 2028. Relatively High interest rate risk and Low credit risk. • Income over target maturity period • Investment in constituents similar to the composition of CRISIL IBX 50:50 Gilt Plus SDL Index – April 2028 **HSBC Gilt Fund (Erstwhile L&T Gilt Fund)** (Gilt Fund) - An open ended debt scheme investing in government securities across maturity. A relatively high interest rate risk and relatively low credit risk. • Generation of returns over medium to long term • Investment in Government Securities **HSBC Dynamic Bond Fund (Erstwhile L&T Flexi Bond Fund)** (Dynamic Bond Fund) - An open ended dynamic debt scheme investing across duration. A relatively high interest rate risk and relatively low credit risk. • Generation of reasonable returns over medium to long term • Investment in fixed income securities **HSBC Medium Duration Fund (Erstwhile L&T Resurgent India Bond Fund)** (Medium Duration Fund) - An open ended medium term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 3 years to 4 years (for details on Macaulay's Duration please refer to the SID under the section "Asset Allocation Pattern"). A relatively high interest rate risk and moderate credit risk. • Generation of income over medium term • Investment primarily in debt and money market securities **HSBC Corporate Bond Fund (Erstwhile L&T Triple Ace Bond Fund)** (Corporate Bond Fund) - An open ended debt scheme predominantly investing in AA+ and above rated corporate bonds. A relatively high interest rate risk and relatively low credit risk. • Generation of regular and stable income over medium to long term • Investment predominantly in AA+ and above rated corporate bonds and money market instruments **HSBC Banking & PSU Debt Fund (Erstwhile L&T Banking and PSU Debt Fund)** (Banking and PSU Fund) - An open ended debt scheme primarily investing in debt instruments of banks, public sector undertakings, public financial institutions and municipal bonds. A relatively high interest rate risk and relatively low credit risk. • Generation of reasonable returns and liquidity over short term • Investment predominantly in securities issued by Banks, Public Sector Undertakings and Public Financial Institutions and municipal corporations in India	*Riskometer of the Scheme  Investors understand that their principal will be at Moderate risk
HSBC Short Duration Fund (Erstwhile L&T Short Term Bond Fund) (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 for details on Macaulay's Duration please refer to SID under the section "Asset Allocation Pattern"). A moderate interest rate risk and moderate credit risk. • Generation of regular returns over short term • Investment in fixed income securities of shorter term maturity.	*Riskometer of the Scheme  Investors understand that their principal will be at Low to Moderate risk

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

^Returns and risk commensurate with CRISIL IBX 50 50 Gilt Plus SDL Apr 2028 subject to tracking errors.

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Potential Risk Class (PRC) Matrix for:			
HSBC CRISIL IBX 50-50 Gilt Plus SDL Apr 2028 Index Fund			
HSBC Gilt Fund		HSBC Dynamic Bond Fund	
HSBC Corporate Bond Fund		HSBC Banking and PSU Debt 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)	A-III		

Potential Risk Class (PRC) Matrix for:			
HSBC Short 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)		B-II	
Relatively High (Class III)			

Potential Risk Class (PRC) Matrix for:			
HSBC Medium 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)		B-III	

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Note on Riskometers: Riskometers are as on February 28, 2023. Any change in riskometers shall be communicated by way of Notice cum Addendum and by way of an email or SMS to unitholders of that scheme. 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.

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