HSBC Corporate Bond Fund (HCBF)

An open ended debt scheme predominantly investing in AA+ and above corporate bonds. Please refer Page no. 9 of the SID for explanation on Macaulay duration. Moderate interest rate risk and relatively low credit risk.

Date: November 2022

Fund Details

Fund Manager
Ritesh Jain

AUM (as on 31.10.22)
157.77 Cr

Minimum Investment

Lumpsum	SIP	Additional Purchase
₹ 5,000	₹ 500	₹ 1,000

Average Maturity	1.59 years
Modified Duration	1.39 years
Macaulay Duration	1.48 years
Yield to Maturity [1]	7.39%

Benchmark
NIFTY Short Duration Debt Index A-II [2, 3]

Inception Date
30 September 20

Exit Load
NIL

[1] YTM Based on invested Amount
[2] SEBI vide its circular no. SEBI/HO/IMD/IMD-II DF3/P/CIR/2021/652 dated October 27, 2021, 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. Furthermore , the same is effective from 01 December 2021. [3] Fund's benchmark has changed with effect from April 01, 2022.

Portfolio Strategy

- From medium term perspective, HSBC Short Duration Fund offers value for investors at current short-term yields over funding cost in terms of spread. However, near term volatility will remain as markets reprice the timing and extent of rate hikes by RBI.
- Despite recent rally in yields given drop in crude prices and rally in US treasury yields, the G-Sec curve remains reasonably steep till the 3 to 5 yr point and flattish thereafter. The extent of supply in G-Sec on account of increased borrowings in FY 23 is also largely towards the duration segment. With RBI having front loaded rate hikes and further rate hikes likely to be more calibrated, the steepness in the curve up to the 3-5 yr segment will present opportunities in terms of carry and roll-down going forward.
- Similarly, on the corporate side, we prefer the 18m to 2 yr part of the curve, which offers attractive risk-return trade-off as the steepness in the curve up to 2 years is attractive and hence compensates to some extent in case of any adverse movement in yields at the ultra-short end of the curve.
- Corporate bond supply remains moderate at the short to medium end of the curve and continues to be well absorbed, despite a marginal increase in spreads in recent weeks. While there might be some volatility in spreads of corporate bonds v/s G-Sec, we are unlikely to see a large increase in terms of spreads.
- As such, we are positioned with an underweight in terms of duration in HSBC Corporate Bond Fund for now as we navigate the near term volatility in yields.

Investment Objective:

To seek to generate reasonable income and provide risk-adjusted returns by investing primarily in AA+ and above rated corporate debt securities. However, there can be no assurance or guarantee that the investment objective of the scheme would be achieved.

The fund may undergo merger/consolidation along with changes to their fundamental attributes as per the notice published on 14 Oct '22. For more details visit our website page - https://www.assetmanagement.hsbc.co.in/en/mutual-funds/acquisition-of-lt-mutual-fund.

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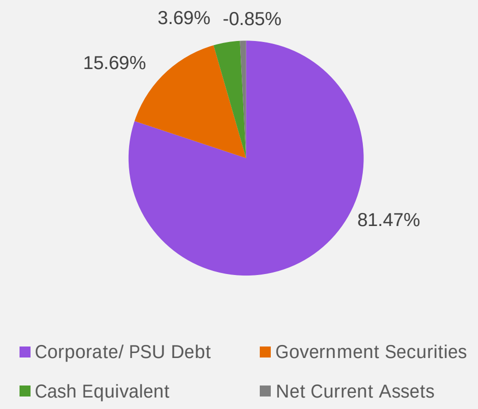
Portfolio

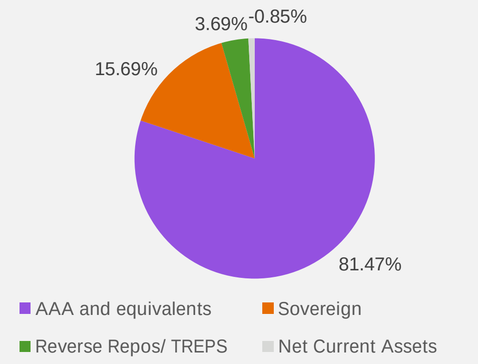
Issuer	Rating	% to Net Assets
Corporate/ PSU Debt		
Corporate Bonds / Debentures		81.47%
Export Import Bank of India Top 10	CRISIL AAA	9.86%
REC Limited Top 10	CRISIL AAA	9.85%
Reliance Industries Limited Top 10	CRISIL AAA	9.82%
Indian Railway Finance Corporation Limited Top 10	CRISIL AAA	9.78%
Indian Oil Corporation Limited Top 10	CRISIL AAA	9.68%
Kotak Mahindra Prime Limited Top 10	CRISIL AAA	9.64%
National Bank for Agriculture & Rural Development Top 10	ICRA AAA	9.61%
Power Finance Corporation Limited Top 10	CRISIL AAA	6.72%
LIC Housing Finance Limited Top 10	CRISIL AAA	6.51%
Government Securities		15.69%
5.15% GOVERNMENT OF INDIA 09NOV25 G-SEC	SOVEREIGN	9.21%
7.38% GOI 20JUN2027	SOVEREIGN	3.25%
6.69% GOI 27JUN2024	SOVEREIGN	3.23%
Cash Equivalent		2.84%
TREPS*		1.35%
Reverse Repos		2.34%
Net Current Assets		-0.85%
Total Net Assets as on 31-OCTOBER-2022		100.00%

*TREPS : Tri-Party Repo

Asset Allocation



Rating Portfolio



Ratings allocation –

HSBC Corporate Bond Fund has invested 81.47% AAA and equivalents. Reverse Repos Treps is 3.69%

HSBC Corporate Bond Fund (HCBF) offers multiple advantages

HSBC Corporate Bond Fund aims for better risk adjusted performance with stability

Product Note

Source – HSBC Asset Management, India, Refer to the Scheme Information Document (SID) for more details on investment guidelines

^ HSBC Corporate Bond Fund - 80% of the net assets excluding the extent of minimum stipulated liquid assets in terms of SEBI circular dated June 25, 2021.

HSBC Corporate Bond Fund (HCBF)

Date: November 2022

Rationale on existing credit exposures*

1. 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.

2. Rural Electrification Corporation Ltd: 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, similar to case of PFC. Post-acquisition of REC by PFC, rating agencies have reaffirmed both agencies 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. Recent policy actions in terms of liquidity support to discoms which have been have been undertaken through REC and PFC, reiterate its strategic importance.

3. Reliance Industries Ltd: 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. Indian Railway Finance Corporation Ltd: IRFC is is wholly owned by Government of India (GoI) through Ministry of Railways (MoR). The company was set up with the objective of borrowing funds from the market to provide rolling stock to Indian Railways (IR). IRFC leases rolling stock to Indian Railways, which reimburses the company through lease rentals, paid on a half yearly basis in advance. The lease agreement between IR and IRFC is structured in such a way that IRFC's expenses are reimbursed, allowing it to earn an adequate margin. The credit profile of IRFC derives significant comfort from the support it receives from GoI and its strategic importance to IR; IRFC provides market funding to about 25% of IR's rolling stock requirements. Given the large capex requirements of IR, IRFC will continue to play a critical role in mobilizing funds for IR at competitive rates and therefore remain strategically important over long term. The company's importance to IR is further evident from the fact that it also raises market borrowings required by Rail Vikas Nigam Ltd. for execution of projects relating to upgrading railway infrastructure. The underlying risk on this exposure is borne by MoR.

5. Indian Oil Corporation Ltd (IOC): IOC dominates the oil refining and marketing sector. With 11 refineries, the company accounted for 32% of the refining capacity of India as on March 31, 2022, and held around 42% share in the petroleum products market in fiscal 2022. The company's market position is underpinned by its entrenched marketing and distribution infrastructure, with 34,559 retail outlets and 12,813 LPG distributors as on March 31,2022, along with aggressive branding and marketing exercises. Overall, majority GOI ownership, strategic importance, robust liquidity profile and strong balance sheet are the key credit strengths.

6. Kotak Mahindra Prime Limited (KMPL): KMPL is an important subsidiary for Kotak Mahindra Bank Ltd (KMBL), as it undertakes car financing business for the group and supports its product offering and revenue profile. It is an important growth engine for the Kotak group in the retail finance space, with a strong presence in the car finance sector. It has strong operational and managerial integration with KMBL. KMPL benefits from the robust retail franchise and nation-wide branch infrastructure of the parent. KMBL shares its strong technology platform and risk management practices with the company. KMPL also has board representation from KMBL. The bank is 100% shareholder of KMPL.

7. 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). 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.

8. Power Finance Corporation Ltd: PFC was established in July 1986 by GOI as an institution dedicated to funding and developing the domestic power sector. PFC aims to promote balanced and integrated development of the power sector by providing finance to low-cost, efficient and reliable projects. It lends to public sector entities, state electricity boards, state governments and private sector power utilities. PFC is majority owned by GOI. Entity's asset quality issues are likely to have bottomed out. Post-acquisition of REC by PFC, rating agencies have reaffirmed both agencies 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. Recent policy actions in terms of liquidity support to discoms which have been have been undertaken through REC and PFC, reiterate its strategic importance.

9. 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.

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

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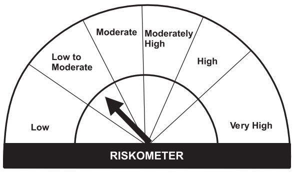
HSBC Corporate Bond Fund Riskometer

HSBC Corporate Bond Fund



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

Corporate Bond Fund - An open ended debt scheme predominantly investing in AA+ and above rated corporate bonds. Please refer Page no. 9 of the SID for explanation on Macaulay duration. Moderate interest rate risk and relatively low credit risk.

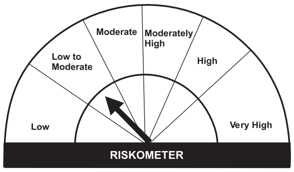
This product is suitable for investors who are seeking##:

- Income over medium term.
- Investment predominantly in corporate bond securities rated AA+ and above.

##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.

Benchmark: NIFTY Short Duration Debt A-II Index



Potential Risk Class (HSBC Corporate Bond Fund)

Credit Risk → / Interest Rate Risk ↓	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
Relatively Low (Class I)			
Moderate (Class II)	A-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."

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