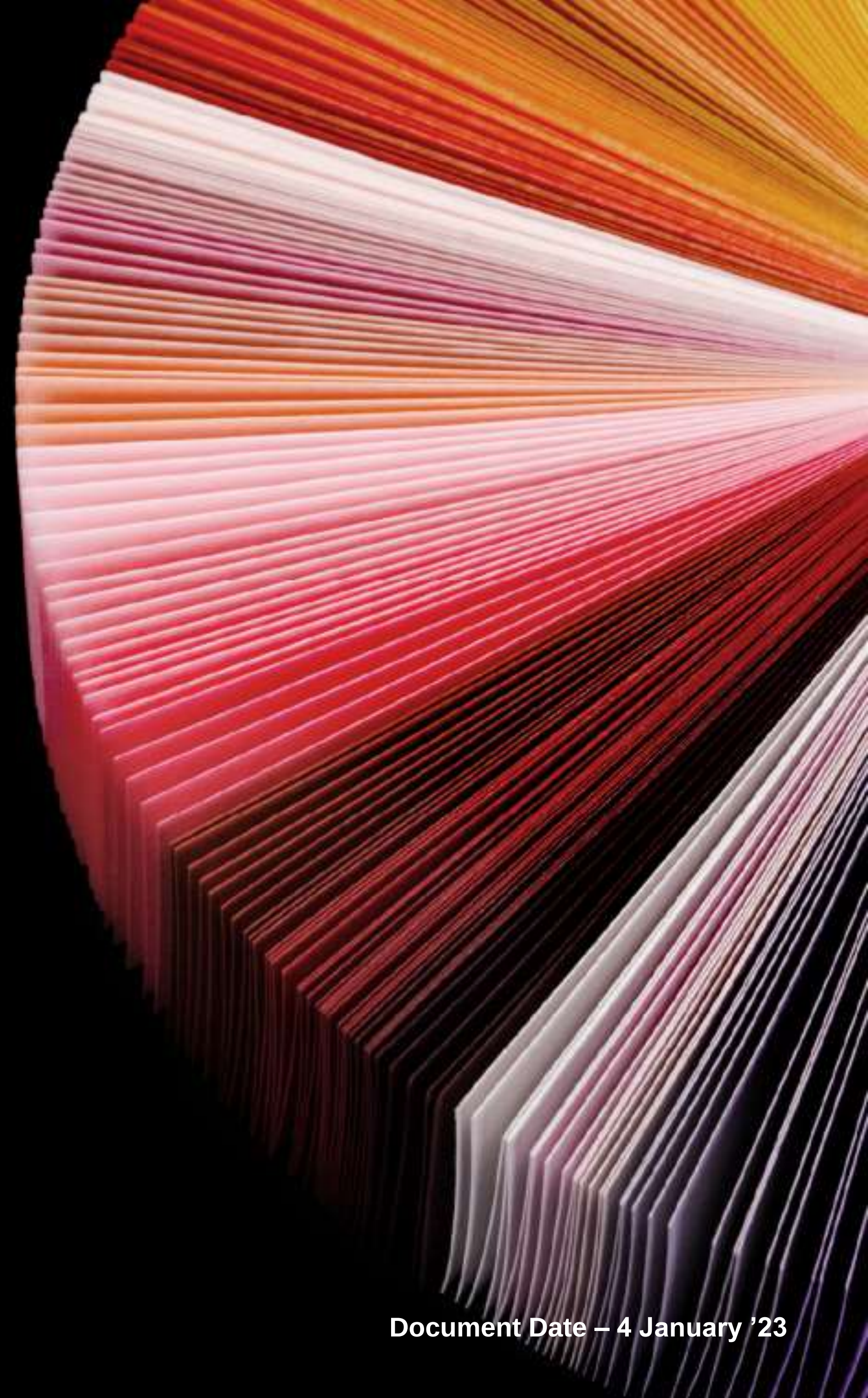
HSBC Medium Duration Fund

Fund strategy and Key exposures

January 2023



HSBC
Asset Management

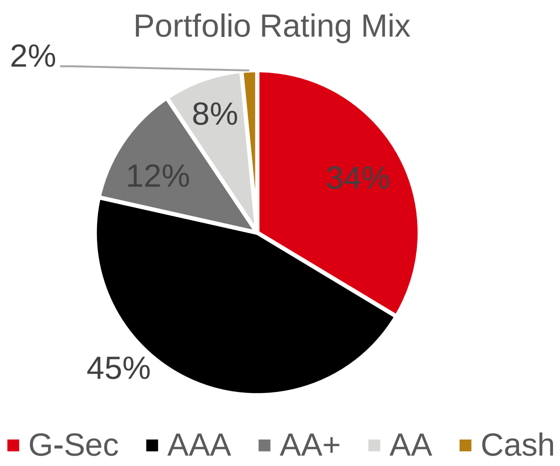
Document Date – 4 January '23

Well positioned in the current market environment

Market backdrop

- Central Banks globally have frontloaded policy rate hikes to curb inflation, with markets now expecting slower pace of tightening going forward
- MPC has also raised policy rates by 225 bps and is possibly in the last leg of the rate hiking cycle
- Markets have seen a sharp rise in yields over the last few months with absolute levels consolidating in the 7.00%-8.00% band
- Crude prices have also come off from the previous highs; recessionary fears are picking up
- In this backdrop, where rates are expected to remain range bound, a strategy combining a prudent mix of strategic Duration calls and Accrual product is well suited for investors with 3 year horizon

A fund like HSBC Medium Duration Fund is well positioned in this segment



Portfolio stats as of Dec 31, 2022	
AUM (INR Crs)	664
Portfolio YTM (%)	8.03%
Modified Duration	3.06

The above details are based on the portfolio of the scheme as on December 31, 2022 and is subject to change based on internal assessment

HSBC 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
- Aims at delivering yield pick up through judicious exposure to high quality/relatively less liquid AAA/AA space, while keeping adequate liquidity
- Currently almost 80-85% of the portfolio in AAA or equivalent securities
- Strategic duration management in an Accrual product
- Rigorous credit selection process to spot mispriced credit opportunities
- Aims at creating alpha by identifying pockets of value propositions, vis-à-vis yield curve steepness, attractive carry opportunities, elevated credit spreads, etc.

Combination of Duration and Accrual strategy in one product

Allows investors to earn better post tax returns

Offers a well-diversified and good portfolio mix with significant liquidity…

- Almost 80-85% of portfolio exposure to AAA rated names
- Nil exposure to AA- and below rated names
- Almost 40% of portfolio exposure to Cash, G-Sec and highly liquid AAAs
- Large part of portfolio eligible to be purchased by banks, further enhancing liquidity
- Latest rating actions are stable/upward on the entire portfolio; Nil downgrades
- Added exposure to G-Sec given low spreads in corporate bonds

While providing yield pickup and maintaining flexibility to change Duration if needed

- The Fund strives to create alpha by identifying pockets of value in high quality/relatively less liquid AAA/AA space
- Adequate "fire power" available given the high proportion of G-Sec in the portfolio, to opportunistically evaluate deals with good yield pick up
- Recently increased Duration of the portfolio to 3+ after staying underweight for almost 2 years. Fund is no longer strategically underweight on Duration
- Demonstrated ability to strategically manage Duration in periods of volatile interest rates

The above details are based on the portfolio of the scheme as on December 2022 end and is subject to change based on internal assessment

Key attributes of HSBC Medium Duration Fund

<u>A strategy that can:</u>

- Strategically manage Duration in periods of market volatility (Reduced Duration to moderate risk during the interest rate hike cycle, while increased Duration recently with market yields consolidating)
- Own securities which provide adequate yield pick-up over G-Sec, while maintaining superior asset quality
- Switch from liquid G-Sec holdings to high quality/less liquid corporate bonds as spreads widen further
- Offer tax efficient returns

HSBC Medium Duration Fund

Superior asset quality and adequate liquidity

Almost 80-85% exposure in AAA/PSUs/G-Sec/Cash which can be liquidated easily

Attractive portfolio yield of 8%+

Healthy spread over plain vanilla AAA fund; Niche positioning with fire power to replace G-Sec when spreads widen

Ability to efficiently manage Duration

Demonstrated ability to strategically manage Duration in periods of volatile interest rates

Tax efficient

A combination of Duration and Accrual strategy in one product allows investors to stay invested for over 3 years and can aim to earn better post tax returns

Currently, Portfolio of the Scheme is designed as per its investment strategy. However the actual portfolio positioning is subject to change
Portfolio as of **December 31, 2022**

With interest rates consolidating at a higher level, a strategy combining a prudent mix of strategic Duration calls and Accrual product is well suited for investors with 3 year horizon

Demonstrated ability to strategically manage Duration in periods of volatile interest rates

Key Exposures

Bharti Telecom Limited (BTL)

- BTL is part of the Bharti Group, which has been promoted by Mr. Sunil Bharti Mittal. The company is the holding company of the group for Bharti Airtel Limited (BAL). BTL does not have any operations of its own and derives its income from the dividends from BAL and income from the other investments of surplus funds.
- Bharti Enterprises (Holding) Private Limited (BEHPL) holds a 50.6% stake and the SingTel Group holds a 49.4% stake in BTL. BTL holds around 38.6% stake in BAL.
- BAL is a leading player in the Indian telecommunication industry. BTL's promoters are the Bharti Group and Singapore Telecommunications Limited.
- The market value of its investment is more than Rs. 1,77,000 crore (as on December 16, 2022). With its stake being entirely unencumbered, BTL has a healthy financial flexibility as indicated by very low total debt/market value.
- BAL is BTL's only investment, making its operating cash flow dependent on dividends and thus, the performance of this investee company. While BAL did not declare dividends in FY2022, out of the dividend distributed by Bharti Airtel in the current fiscal, BTL received around ~Rs. 600 crore.
- Rated CRISIL AA+/Stable

Shriram Finance (erstwhile Shriram Transport Finance Company Limited)

- Shriram Transport Finance Company Limited (STFC), is a deposit accepting non-banking financial company. It is the market leader in pre-owned CV financing with a pan-India presence
- On December 13, 2021, board of directors of Shriram Transport Finance Company Limited (Shriram Transport), Shriram Capital Limited (Shriram Capital) and Shriram City Union Finance Limited (Shriram City) approved the merger of the entities with Shriram Transport.
- Post-merger the growth should continue with benefits of diversification. Increased diversification should take care of the inherent cyclicality in vehicle finance business.
- Asset quality metrics remained stable reported gross non-performing assets (GNPA)/ Gross Stage 3 metrics to 6.93% as on September 30, 2022 (7.07% as of March 31, 2022)
- The company's (pre-merger) Tier 1 and total capital adequacy ratio improved to 20.59% and 22.48% respectively as on September 30, 2022 (20.70% and 22.97% respectively as on March 31, 2022), well above the regulatory minimum.
- STFCL reported return on assets (RoA) of 2.58% for first half of fiscal 2023 (1.34% for first half of fiscal 2022).
- Rated CRISIL AA+/Stable , ICRA AA+/Stable, CARE AA+/Stable, IND AA+/Stable

Oriental Nagpur Betul Highway Limited

- Oriental Nagpur Betul Highway Ltd (ONBHL) is a special purpose vehicle promoted by Oriental Structural Engineers Private Limited (OSE; 26.03% stake), Oriental Tollways Pvt Ltd (100% subsidiary of OSE; 47.97%), and Continental Engines Ltd (26.00%) to undertake augmentation of two-lane carriageway of existing section of NH-69 from km 3.0 to km 59.3 in Maharashtra and Km 137.0 to Km 257.4 in the state of MP to a four-lane carriageway on DBFOT
- In June 2019, OSE has transferred 5 assets including ONBHL to Oriental Infra Trust (InvIT) and the InvIT now holds 100% stake in the SPV with AIIB, IFC among InvIT investors
- Annuity based project so no traffic risks undertaken by ONBHL. Long track record of receipt of half-yearly annuities of Rs. 290.8 cr each without any material deductions – 15 semi-annuities so far
- Annuity received from NHAI ➔ strong counterparty profile as NHAI is **GoI's** undertaking; rated AAA.
- Operational nature eliminates construction risks. Watertight cash flow structure & availability of adequate liquidity reserve & cash reserve imparts high visibility on availability of cash flows to NCD investors.
- Performance-related risks are mitigated by ONBHL's fixed-rate O&M contract with OSE with agreed escalation percentages and a full pass-through of any performance deductions.
- One MMR cycle completed so far- done within prescribed timelines and lower than budgeted reserves
- Rated AAA by CRISIL and CARE

- PKHIL operates & maintain a 48 km stretch on NH-7 under annuity-based project awarded by NHAI. Projects have already been completed & operational since June-2010.
- Payments from NHAI have been timely and regular since COD – 24 semi annuities received so far ➔ strong track record of timely receipt of payments from NHAI
- Annuity receivables credited to a separate escrow account wherein NCD holders have the first charge. Additional liquidity available of Rs 35 cr (~6m DSRA) and free surplus cash of ~Rs 20 cr to compensate for any delays / shortages.
- Annuity based project ➔ no traffic risks undertaken by PKHIL
- Annuity received from NHAI ➔ strong counterparty profile as NHAI is **GoI's** undertaking; rated AAA.
- Day to day operations managed by KNR Construction Limited, which has vast experience in timely execution and maintenance of roads.
- Watertight cash flow structure & availability of adequate liquidity reserve & cash reserve imparts high visibility on availability of cash flows to NCD investors.
- Latest update: Second MMR cycle completed in May 2021 and 2 semi annuities received subsequently in full (latest in March 2022)
- Rated AA+ by CARE

First Business Receivables Trust

- FBR Trust, is a pass-through certificate (PTC) investment, backed by unconditional and irrevocable service fee receivables from R-MDA group companies- RIL, Rel Jio and Rel Retail -> effective credit risk is on RIL group companies
- RIL is one of India's largest private sector companies, with diverse interests, including oil refining, petrochemicals, and upstream oil and gas exploration and production, retail, telecom and digital services.
- Reliance Retail is India's largest retail entity by revenue, while Jio is the India's largest telecom service provider by revenue market share as of Jan 2022. Given the strong strategic importance to RIL, these companies is rated AAA/Stable/A1+ by rating agencies
- Our PTC is rated AAA(SO) by CRISIL and India Ratings factoring in the cash flows from service users and strong underlying structure.

Vector Green Energy (6 SPVs)*

- Strong revenue visibility with all of the 256 megawatt (MW)(or 350 MWp) VGRG's projects operational for over 3 years and have 25-year Power Purchase Agreements (PPAs) at fixed pre-determined tariffs
- PPAs are with strong counterparties – NPTC and SECI covering 98% of revenues; NTPC (30 days) and SECI(60 days) as intermediaries have had a very good track record in terms of making timely payments
- Co-obligor structure of SPVs providing cash flow diversity benefit given that the group consists of 8 different solar assets (across 6 companies) spread across different locations.
- VGRG has a comfortable financial risk profile, marked by steady healthy cash flows being generated from its assets resulting in a comfortable projected debt coverage. (projected DSCR>1.4x)
- Healthy and improving PLF level (over P90) has been observed in last few years; Based on cash receipts from counterparties as on March 2022, DSCR cushion remains healthy
- VGRG was ultimately owned by funds managed by Global Infrastructure Partners ("GIP"), a leading infrastructure investor. It is now being acquired by Sembcorp Industries (SCI) – which is 49.5% held by Temasek Holdings – the change is credit neutral.
- CRISIL and India Ratings rate the company at AAA/Stable and AAA(CE)/Stable respectively. Both the agencies had assigned these ratings freshly in May 2021.

**SPVs: Yarrow Infrastructure Private Limited, Malwa Solar Power Generation Private Limited, Sepset Constructions Ltd, Vector Green Prayagraj Solar Pvt Ltd, Citra Real Estate Limited, Priapus Infrastructure Limited*

PUBLIC

ONGC Petro Additions Limited (OPAL)

- OPAL benefits from its strong parentage, with ONGC holding 49.36% equity stake and GAIL (India) Limited holding another 49.21%, with same Chairman as ONGC;
- Strong operational, financial and management support from ONGC (rated AAA/Stable by all agencies); ONGC is also in plans of making OPAL its subsidiary in the near term – pending government approvals.
- ONGC has also extended explicit support by subscribing to share warrants and providing Letter of Comfort (LoC) for OPAL's NCDs upto Rs. 3,000 Crore and term debt as well as support for the CCDs
- Strategically aligned with ONGC's business plans - OPAL's petrochemicals complex is part of the forward integration of ONGC. Significant portion of OPAL's feedstock sourced from ONGC.
- Significant scale advantage - as one of the largest integrated petrochemical plants in India, with assured supply of key feedstock;
- While currently low profitability due to volatility in crack spreads, operating at high (85%+) utilization levels
- Our comfort on the CE exposure is based on the strength of LoC provided by ONGC which also incorporates a T-1 payment mechanism whereby ONGC has demonstrated a consistent track record of timely support ➔ Credit comfort derived from strongly worded LoC
- ICRA, India Ratings and CARE rate the company at AAA(CE)/Stable. In addition, OPAL also has AA/Stable/A1+ outstanding ratings from these above three agencies as well as from CRISIL.

IOT Utkal Energy Services Limited

- IOT Utkal is an SPV formed to setup crude and product storage tanks on BOOT basis for meeting the requirements of IOCL's 15 mtpa refinery in Paradip, Orissa
- Operational since Nov 2013 ➔ no underlying construction risk
- Strong strategic linkages with IOCL Ltd for the normal operations of IOCL’s Paradip Refinery. Also, IOCL holds 48% in IOTL which then holds 71.57% in IOTUL.
- Long term “take or pay” agreement with IOCL for the entire facility at annuity-based revenue system ➔ high revenue visibility.
- Strong credit profile of IOCL for being the largest government owned refinery ➔ counter party risk also mitigated to great extent.
- Back-to-back arrange with its sponsor – IOTL for fixed O&M contract, which has strong experience in O&M activities.
- Robust NCD structure with watertight cashflows and adequate liquidity reserves (adequate for 3 months of peak debt servicing).
- Rated AAA/ Stable by CRISIL and India Ratings

The Tata Power Company Limited

- Tata Power Company Limited (TPCL) is India's largest integrated private power utility, with installed generation capacity of 12.005 GW as on Sept 30, 2022 (excluding 1.98 GW through a platform structure). Tata group holds ~47% (majorly Tata Sons at 45.2%) stake as of Sept 22. Majority of the capacity is having long-term PPAs which provides long term revenue visibility. Benefits from stable cash flow from regulated businesses
- Tata Power has lined up large debt-funded capex plans, estimated at Rs. 8,000-9,000 crore in FY2023, mainly in the renewable and distribution business.
- The leverage level of the Tata Power Group remains moderately high, with net gearing of 1.32 times and net debt to EBITDA of 3.52 times as on Sept 30, 2022 at a consolidated level. Net Debt has declined with receipt of equity infusion towards dilution of stake in TP Green Company under TPREL.
- Company’s fuel supply agreements (FSAs) with the subsidiaries of Coal India Limited and coal mining companies in Indonesia mitigate the fuel supply risks for its thermal generation projects in Coastal Gujarat Private Limited, TPCL (Mumbai) and Maithon Power Limited.
- The company’s consolidated liquidity is expected to remain adequate with cash balances of Rs 8,251 crore as on Sept 30, 2022, at a consolidated level.
- Tata Power is rated AA/Stable by CRISIL, ICRA, CARE and India Ratings.

NIIF Infrastructure Finance Limited

- NIIF II acting through its investment manager NIIFL holds ~40% equity share in NIIF IFL, the balance is held by AIFL (~31%), HDFC Limited (~4%) and GoI (~25%).
- Given the strong financial flexibility and quasi sovereign ownership of NIIF, timely growth capital fund raise and liquidity support for NIIF IFL is expected.
- Stable business profile (being a NBFC-IDF with tight regulatory framework - can take exposure only in operational projects with 1 year+ track record) and hence, strong asset quality (nil NPAs/stage 2 assets till date)
- Diversified portfolio across renewable energy (45%), power transmission (6%), other power (18%), roads (3%), hospitals (3%) and other infrastructure sectors (25%).
- Management experience, sound underwriting, and adequate capitalization mitigates the key risks related to high concentration risk in the portfolio (typical of any wholesale financing NBFC but IDFs are stronger given the regulatory restrictions plus nil exposure to real estate financing)
- Comfortable asset quality marked by Nil Stage 2 and Stage 3 assets as on Sep 2022
- ICRA and CARE rate the company at AAA/Stable/A1+

Sikka Ports & Terminals Ltd

- Our comfort is primarily driven by ~100% ownership by Reliance Industries Holding Private Limited (promoter holding company for RIL) and criticality of the company for RIL's operations and expected support from the promoters in case of any shortfall.
- This belief is further reinforced by close operational linkage with RIL's main business of oil & gas production, refining and petrochemicals.
- Sikka Ports & Terminals Ltd (SPTL) provides port, storage, handling and evacuation facilities to RIL in Jamnagar
- SPTL is also engaged in operating and hiring construction equipment and machineries and is also a co-developer of Jamnagar Special Economic Zone. STPL handles a major part of RIL's refining/petrochemicals volumes.
- Rated CRISIL AAA/Stable and CARE AAA/Stable

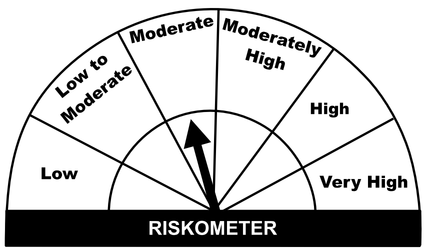
IIFL Home Finance (Part of IIFL Finance group)

- IIFL Home Finance is a wholly owned subsidiary of IIFL Finance Ltd., and receives strong support from the IIFL Finance group. Primarily engaged in secured lending across retail asset classes. Retail accounts for ~94% of AUM as of Sept 2022 -> High level of granularity provides comfort (ATS < Rs 1cr).
- Fairly diversified on-book loans of ~Rs 34,969 cr as of Sept 2022 along with ~Rs 20,333 cr assigned portfolio- overall AUM of ~Rs 55,302 cr. Home and gold loans account for 36% and 32% respectively.
- Construction and Real estate is now only 5% of the portfolio. In Q1FY22, had transferred real estate assets of Rs 1400 cr to an AIF – (Ares SSG took up 33% stake). Further to this, ADIA funding of Rs 2200 Cr has been received in August 2022 against 20% stake ➔ Freed up capital, a credit positive
- Moderate asset quality with Gross NPA asset at 2.4% and Net NPA at 1.2% as of Sept 22
- Healthy balance sheet with group's consolidated net worth of ~Rs 9480 cr and a moderate gearing of around 4.1x as of Sept 2022. Strong capitalization with overall CRAR at 30.5% and Tier-1 at 21.1% as of Mar-2022 for IIFL Home; IIFL Finance CRAR also healthy at 21.7% as of Sept 2022.
- Adequate group level liquidity of ~Rs 8,191 cr (as of Sept 2022) in the form of cash & cash equivalents and committed credit lines from banks and institutions. Large portion of the portfolio qualifies for priority sector lending which also enhances liquidity.
- IIFL Home Finance is rated at AA/Stable by CRISIL, ICRA and CARE.

Embassy Office Parks REIT

- Embassy REIT is India’s first publicly listed Real Estate Investment Trust (REIT).
- Unitholding by Sponsors 36% (24% Blackstone group, 12% Embassy group) and rest public as of Mar 22; Investment manager (IM) of REIT is a 51:49 JV between Blackstone and Embassy groups
- Owns and operates a 43.2 million square feet (msf) portfolio of 12 commercial properties across India (operational 33.4 msf and rest under construction). Present in India’s top performing office markets of Bengaluru, Mumbai, Pune, and the National Capital Region
- Strong and sticky tenant profile- 223 blue chip occupiers, Fortune 500 cos account for 47%; Tech and global captive cos account for 70% of occupier base
- Occupancy at a healthy 87% as of Sept 22; Covid impact was minimal on the portfolio with ~100% collection efficiency over the last two years
- Weighted average lease expiry of 7.3 years combined with 25% mark-to-market upside on existing rentals ➔ strong cash flow visibility over the medium term
- Comfortable debt protection metrics with Net debt to Gross Asset Value (GAV) of 26% as of Sept 22 ➔ significant cushion vis-à-vis 49% regulatory cap
- Rated AAA/Stable by CRISIL and ICRA

HSBC Medium Duration Fund (Erstwhile L&T Resurgent India Bond Fund)



Investors understand that their principal will be at Moderate risk

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.

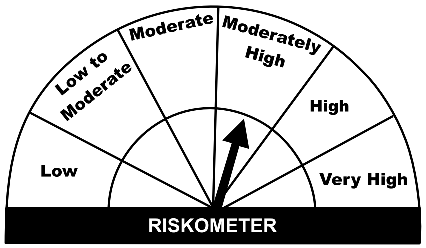
This product is suitable for investors who are seeking*:

- Generation of income over medium term
- Investment primarily in debt and money market securities

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

Note on Risk-o-meters: Riskometer is as on 31 Dec 2022, 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 Index: NIFTY Medium Duration Debt Index B-III



Potential Risk Class (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	
A Scheme with Relatively High interest rate risk and Moderate credit risk.			

All data as of December 31, 2022.

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

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HSBC Asset Management (India) Private Limited, 9-11 Floors, NESCO IT Park, Building no. 3, Western Express Highway, Goregaon (East), Mumbai – 400 063, India.
Email: hsbcmf@camsonline.com | Website: www.assetmanagement.hsbc.co.in

CL 085

India Fixed Income Credit Research – How do we mitigate credit risk?

Strong and optimum credit process

Balance Risk and Return

Business Risk	Market Risk	Financial Risk	Structure Risk
Robust fundamental research – mitigate downgrade risk	Understand that "less liquidity" and "mispricing" is here to stay	Financial/ratios/Projections	Look for bond covenant protection such as guarantee (from stronger parent)
Monitor existing investments for unpredictable adverse events	Weightage to liquidity of instruments versus credit risk	Profitability	SPV (Special Purpose Vehicle) structures
Identifying investible names is more company specific and not sector specific		Liquidity	DSRA (Debt Service Reserve Account), Escrow, Cash trap
Despite GOI ownership in case of PSU names, fundamentals take precedence		Solvency	Change of control
Markets, business, drivers of growth and risk factors		Capital expenditure/ Working capital	

- Liquidity and downgrade risks managed through strong and optimum credit process [1]
- Interest rate risk managed through active duration management
- Downgrade Risks managed through strong and optimum credit process

Source: HSBC Asset Management India. The information above is provided by and represents the opinions of HSBC Global Asset Management and is subject to change without notice
1. Liquidity risks managed through evaluation of issuance / traded volumes, minimum holding of regulator specified liquid assets and stress testing.