

Target Maturity Index Funds

Benefit from the planned target goal in volatile times

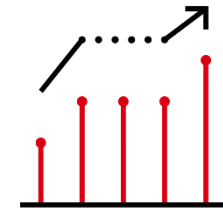
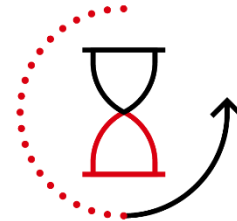
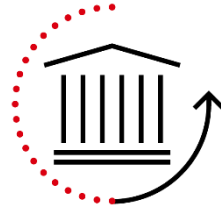
An Investor Awareness & Education Initiative



Target Maturity Index Funds

Funds that aim for better risk adjusted performance

- Target Maturity Index Funds (TMIF) are open-ended debt funds which track predefined fixed income index
- These funds have a fixed maturity and the potential to generate healthy risk adjusted performance
- TMIF follows a predefined index having securities maturing on or before a maturity date of the index



1

- TMIF portfolio **aims to replicate a predefined index and designed to end (mature) at a predefined date**

2

- The index typically has a **mix of quality debt papers** such as Gilts (Government Securities), SDL, PSUs, T-Bills and Other bonds.

3

- Fund Manager buy securities (represented by index) whose maturities are within **the defined maturity date of the index and aims hold them to maturity**

4

- **Fund is managed passively** by tracking performance of the benchmark index (subject to tracking errors)

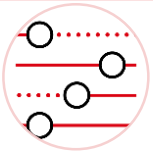
Funds with fixed maturity and the potential to generate healthy risk adjusted performance

Benefits of Investing in Target Maturity Index Funds (TMIF)

One fund multiple benefits (TMIF)

- Offers relatively attractive yielding investments

Optimal yields



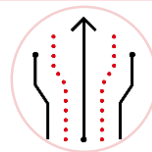
- Presents liquidity through investments in gilt and redemption feature with open ended nature

Liquidity



- Relatively low credit risk due to investment as per the index; majorly can be in sovereign G-Sec papers

Quality & Safety



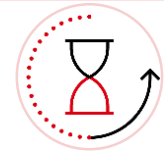
- Duration risk keeps reducing with defined maturity date
- Negates duration risk as one remain invested through the life of the fund

Reducing interest rate risk



- Buy to hold investment strategy (roll down maturity product) ¹

Roll down



Roll down maturity feature can help achieve targeted returns over the defined period

Source: HSBC Mutual Fund, 1. Refer to the Roll down strategy explained in the Annexure section

The Right Opportunity

Capture the right opportunity to meet your financial goals

	Target Maturity Funds	Active Debt Funds	Bond
Liquidity	Yes	Yes	No ¹
Diversification	Yes	Yes	No
Professional Management	Yes	Yes	No
Defined Maturity	Yes	No	Yes
Tax Efficiency	Yes ²	Yes ²	Yes ³

Target Maturity Index Funds provide multiple benefits

Source: HSBC Mutual Fund, Past performance may or may not be sustained in the future.

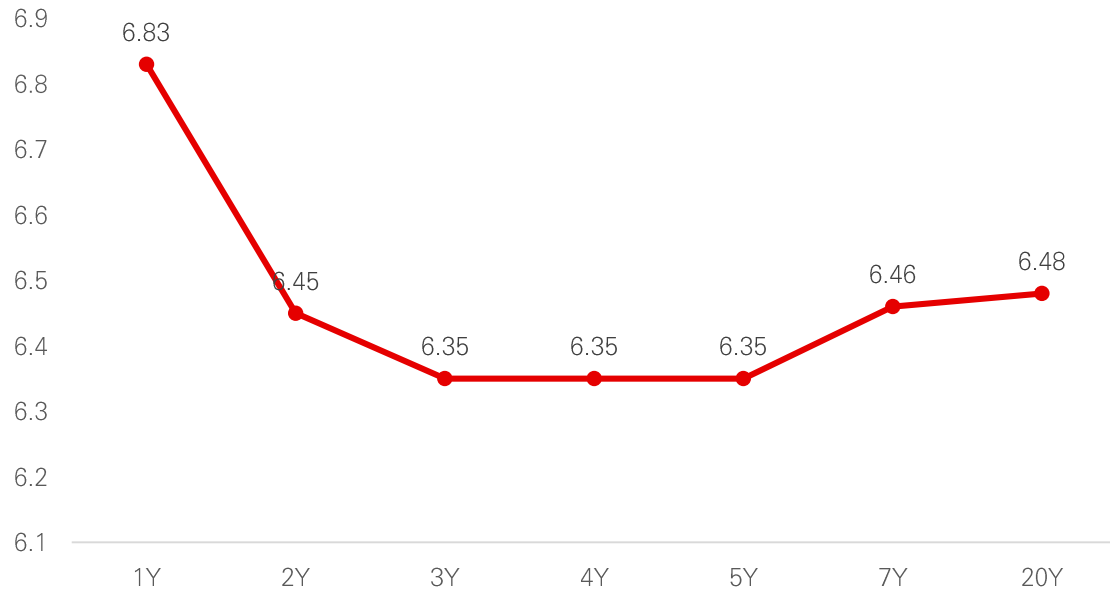
1. Bond liquidity may vary due to dynamics of the debt markets, 2. Indexation available for LTCG, 3. Indexation available for LTCG in select bonds. Investors should consult financial advisors for ideal portfolio allocation and suitability of funds which may be based on the risk profile of the investor.



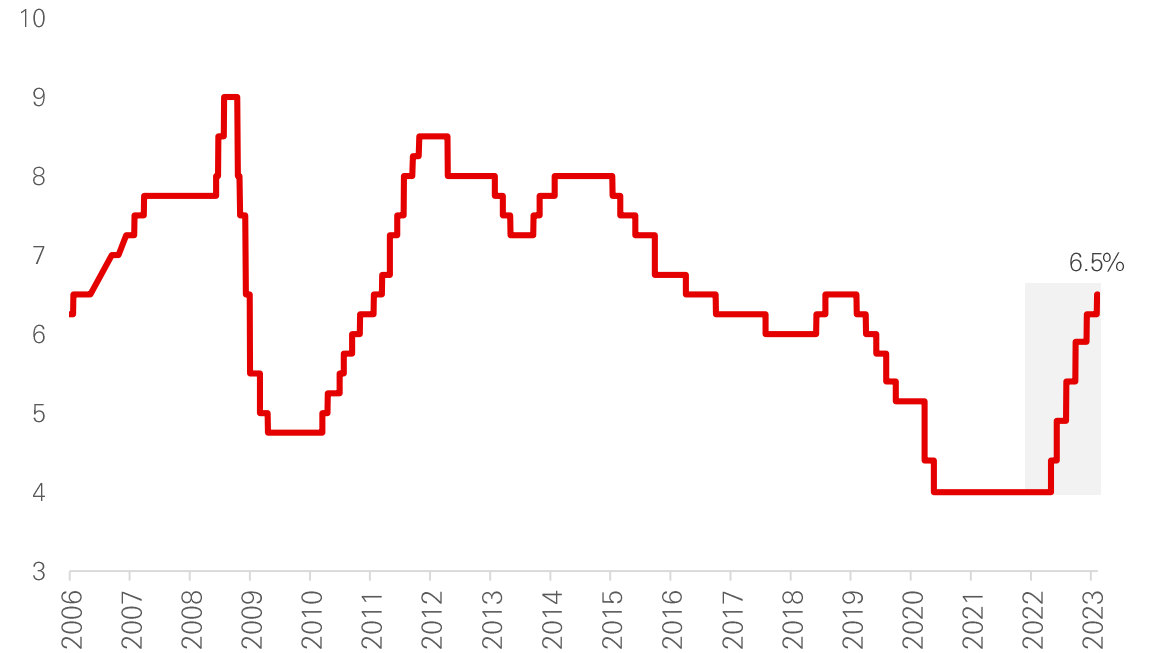
Why invest now?

OIS Curve is inverted and Repo rate is close to peaking...

OIS Curve



Repo Rate



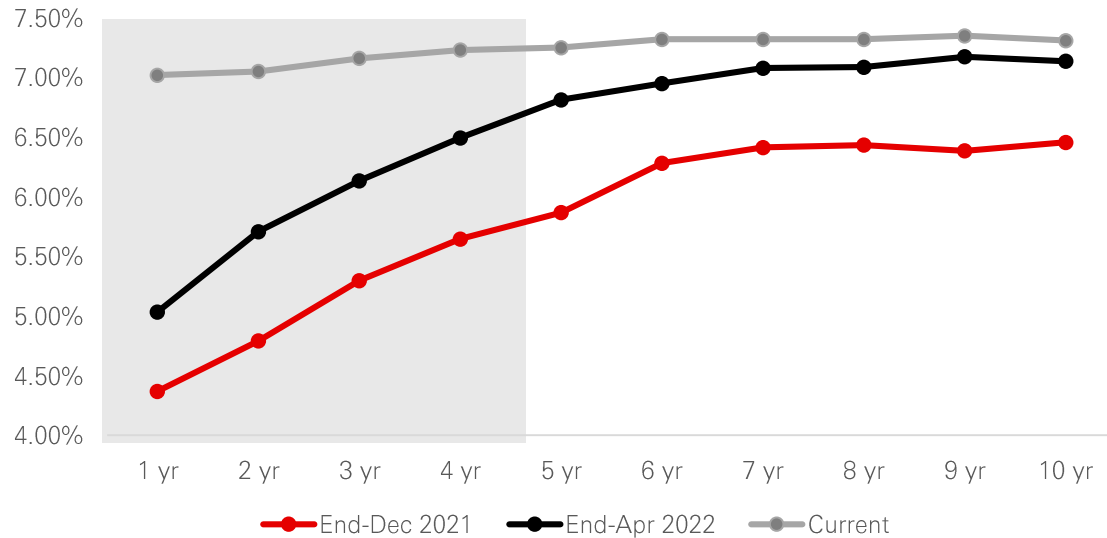
- Market yields tend to price-in rate hike/cuts, ahead of actual policy announcements
- Market expectation is of lower rates going forward – this presents a good entry point for long-term investors in terms of risk-reward

Current market offers good entry point for long-term investors in terms of risk-reward

Why invest in 4 - 5 year segment?

Flattening of Yield Curve - Shorter end rates have increased significantly over the last year

G-Sec Yield Curve Movement



Compression of Term Premium

Tenor Premium (bps)	1 yr vs 10 yr	3 yr vs 10 yr	5 yr vs 10 yr
End-Dec 2021	209	116	59
End-Apr 2022	210	100	32
Current	29	15	6

- Shorter end has seen a sharp reversal in yields resulting in flattening of the Yield curve
- Yield curve beyond the 4 - 5 year point almost flat
- Repo rate is at 6.5% and expectations of terminal rate rising much further have tempered down significantly

The 4 – 5 year point in the yield curve remains attractive from a carry stand point

Why invest in Target Maturity Index Fund now?

Forward Curve pricing indicates that no further aggressive rate hikes are expected

1 year G-Sec Forward Curve (at different points)

Tenor	1 yr	2 yr	3 yr	4 yr	5 yr
G-Sec Yield Curve	7.02%	7.05%	7.16%	7.23%	7.25%
1 year G-Sec Forward Curve	7.08%	7.38%	7.44%	7.33%	
Yield movement (bps)	6	36	42	31	

For illustration purpose only.

Source: HSBC Mutual Fund, market Data as on 9 Feb 2023

- The current Forward Curve indicates that markets are expecting 1 year G-Sec levels to move up marginally over the next year
- Investors can “lock-in” at elevated yield levels, for the longer term

Benefit over a long term by locking in at elevated yield levels

Fund with Power of Indexation

Illustration on Indexation

	Fixed Deposit	Tax Free bond	4.5 yrs reducing maturity strategy (TMIF)
Investment (Rs.)	1,000,000	1,000,000	1,000,000
Rate of Return (%) (assumed) ^{1, 2}	6.25%	5.15%	7.30%
Holding period (Years)	4.5	4.5	4.5
Maturity Returns + Investment (Rs.)	1313652	1253550	1373089
Maturity Returns + Investment (Post expenses) (Rs.)			1361610
Calculation:			
Indexation	No	No	Yes
Indexed Value	N/A	N/A	1276282
Taxable Income (Rs.) ³	313,652	253,550	85328
Tax Payable (Rs.)	97,859	0	17066
Post Tax & Post Expenses Gain (Rs.)	215,792	253,550	344,544
Maturity Returns + Investment: Post Tax + Indexation - Expenses (Rs.)	1,215,792	1,253,550	1,344,544
Effective Final Post tax and expenses Return (CAGR%)	4.44%	5.15%	6.80%

The fund will offer investors 5 indexations¹ during its lifetime.

Target Maturity Index Funds provide better tax benefit

The above calculations are only for illustration purposes only. Source: HSBC Mutual Fund, Data as on 9 Feb 2023. 1. assuming investments are made on 20 March 2023 and held beyond 1 June 2027. For Debt Index Fund (e.g. TMIF) - current 4.5 year benchmark Gsec (7.38 GS 2027) is used 2. Prevailing SBI 5 year fixed deposit rate used in case of Traditional Savings Scheme option. 3. Tax Rate considered 31.2% exclusive of applicable surcharges & cess in case of Traditional Savings Scheme. Debt Index Fund - Tax as per LTCG income tax provisions exclusive of applicable surcharges & cess., Expenses Assumed at 0.20% per annum only in case of TMIF, This computation is for resident individual investors. Cost inflation index assumed at 5% p.a. These are not to be considered for investment advice or guarantee of returns. Investors are advised to consult their Financial Advisor. **Past performance may or may not be sustained in the future.**

Why consider Target Maturity Index Fund?

Favourable investment scenario

Tracks index performance

- Target Maturity Index Fund (TMIF) replicates Index
- These fund aims to track the index performance and offer liquidity
- Invests in sovereign G-Sec papers, as per the index
- Currently 4 - 5 year point of the yield curve offers adequate carry. TMIFs focusing on this point are positioned well in this scenario.

Indexation

- Offers tax benefits with indexation

Performance and Liquidity

- A roll down fund strategy to take benefits of better yields
- The roll down strategy can result in capital gains over medium term once interest rate cycle peaks out
- Attractive yield for 4.5 year offers adequate carry and roll down which could lead to lower volatility over medium term
- Regular liquidity with open ended nature of the fund and no exit load
- Hold to maturity with indexation benefit may offer better return profile vs bank deposits

Low risk

- Offers relatively low credit risk by investments in low risk instruments such as G-Sec, SDL and T-bills

TMIF through attractive yield at 4.5 year maturity offers adequate carry and roll down

Source: HSBC Mutual Fund, Data as at 31 Jan '23

Advantage Passive Strategy

Underlying features of Passive strategy



Replicate the index constituents



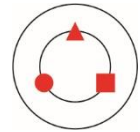
Low cost efficient strategy



Benefit from broader market outlook, transparent and no lock in feature



Low risk of security selection



Index Funds are efficient and popular vehicles to passive investing across the world

Benefit from a low cost efficient strategy

Summary

Target Maturity Index Fund (TMIF)



TMIF aims to **track the index performance while offering safety and liquidity**



Offers safety with **relatively low credit risk** by investments in G-Sec, SDL, T-Bills, etc



Aims to focus on attractive point in the yield curve from a carry stand point and where one can benefit from a roll-down strategy



Open ended fund with target maturity and no exit Load, offers regular liquidity and tax benefits with indexation

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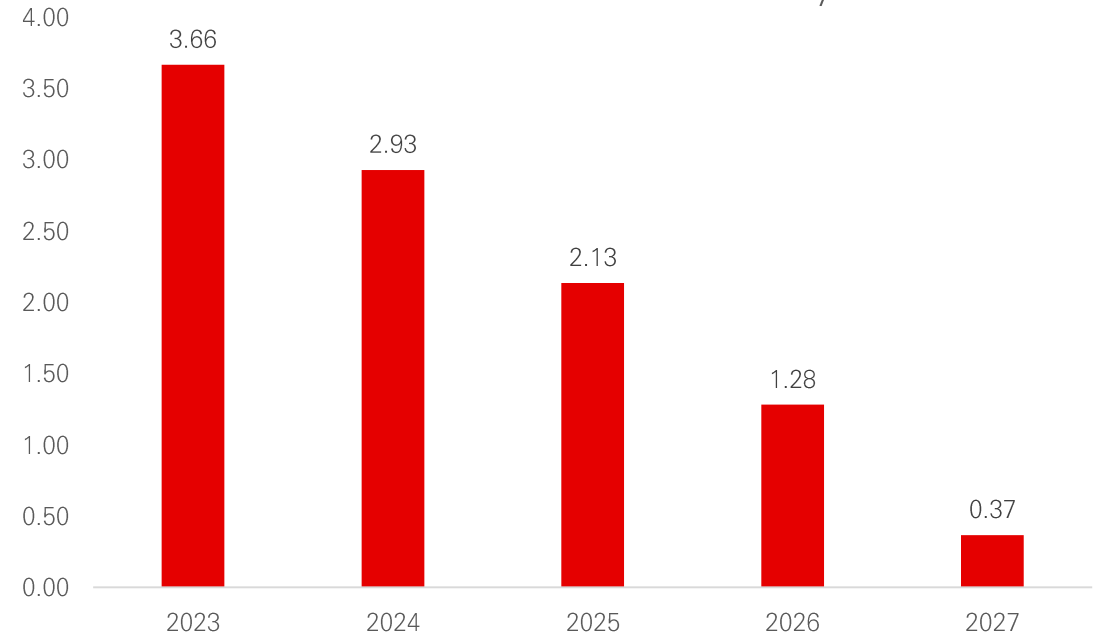
Annexure

Roll-down strategy illustration

Knowledge bytes

- **Roll Down strategy is an accrual strategy**
 - Generally used in elevated rates environment
 - Seek to earn only coupons/yield at regular intervals from its underlying portfolio by buying and holding security
- The average maturity of the scheme’s portfolio, as a consequence, decreases with the passage of time.
- **Low- interest rate risk:** The strategy avoid impact from the expected increase in interest rates over time.
- It is useful for capturing higher present yield at any point of curve and gradually move towards shorter end of the curve which is less susceptible to interest rate risk.

Reducing Residual duration - Indicative duration levels for G-Sec of 2027 maturity



Average maturity of the portfolio decreases with the passage of time thus provides lower interest rate risk

For illustration purpose only.

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