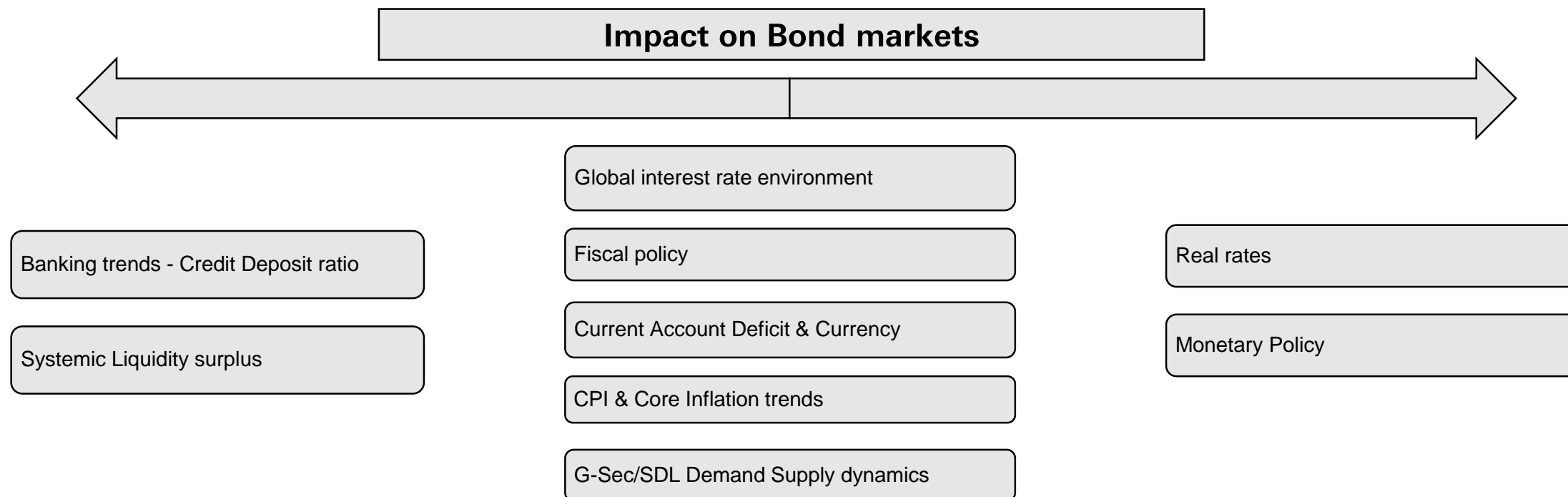


HSBC Banking and PSU debt Fund

Product Deck



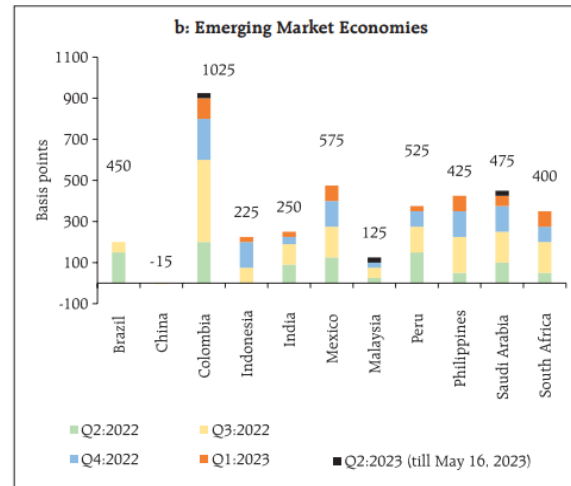
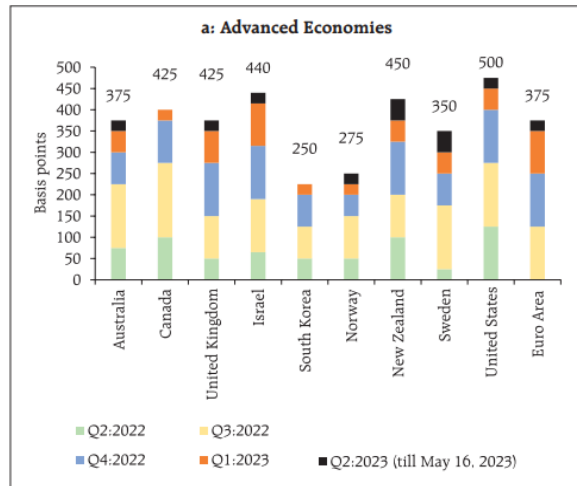
Fixed Income Top-down Macro economic factors



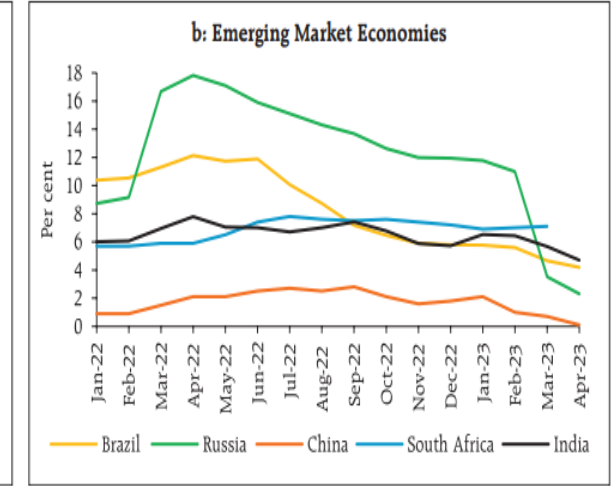
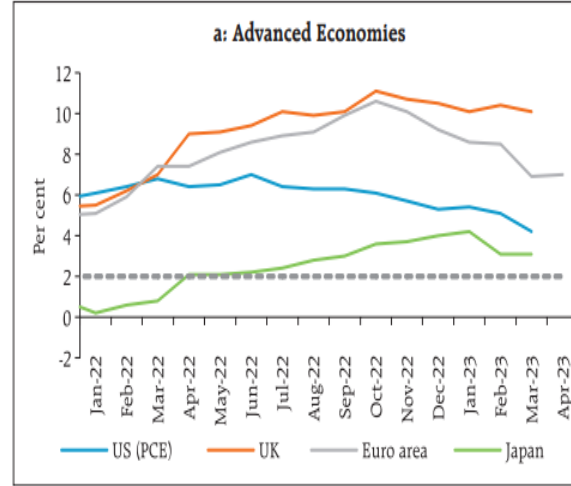
- Global Central banks likely to end the interest rate hikes this year, while keeping a close watch on inflationary pressures
- Cumulative rate hikes in this cycle by major central banks: Fed – 500 bps, BOE – 440 bps, ECB – 375 bps, MPC – 250 bps
- MPC unanimously kept the Repo Rate unchanged at 6.50% vs market expectations of a 25 bps hike, with the current pause to assess the 250 bps hike working through the system
- Real Rates and Small Savings rate turn favorable while we are at the end of the hiking cycle
- Budget FY2024 was on expected lines in terms of fiscal discipline, market borrowings and focus on Capex

Have Central Banks done enough to curb inflation?

Monetary Policy Actions



Inflation

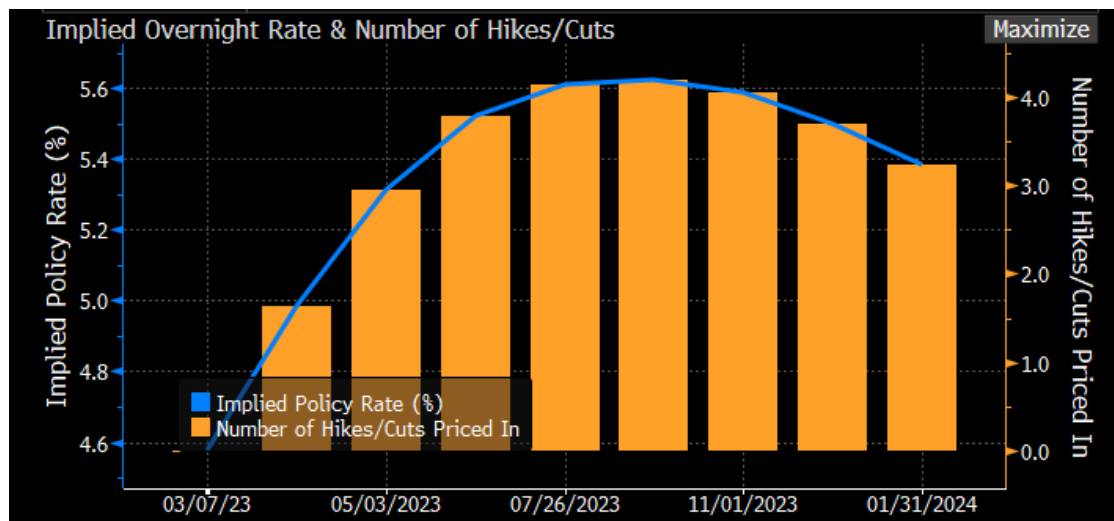


- Central Banks globally have undertaken sharp policy tightening to curb the spiraling inflation
- Although inflation trajectory has lowered, some economies are still far from their mandated targets
- Most Central Banks will look to monitor the impact of the rate hikes undertaken, as it unfolds over the next few quarters

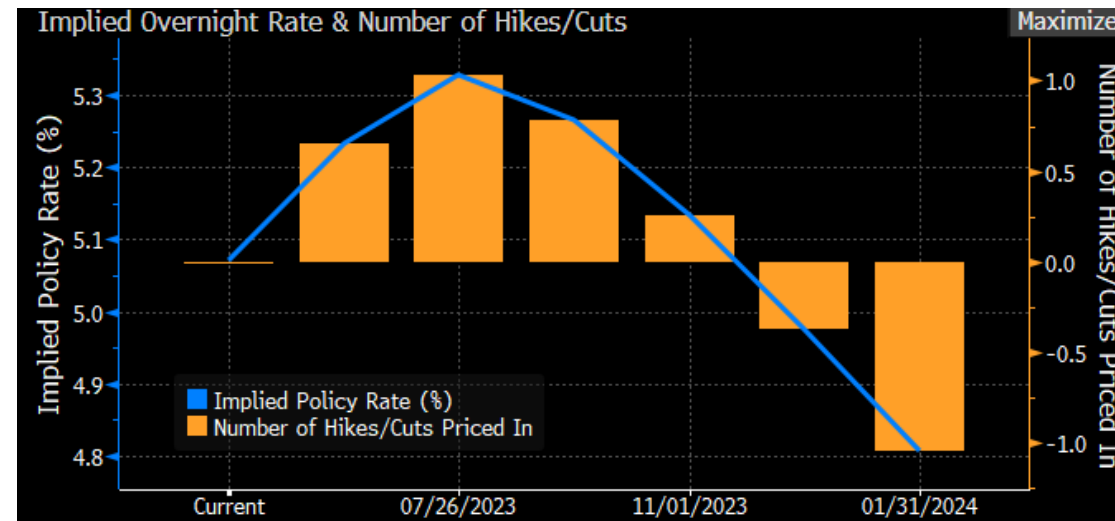
Source: RBI Bulletin
Data updated as on May 19, 2023

Wild swings in Fed Funds Rate on expectations of Fed pivot

US Fed expectations on 8-Mar-23



US Fed expectations on 29-May-23

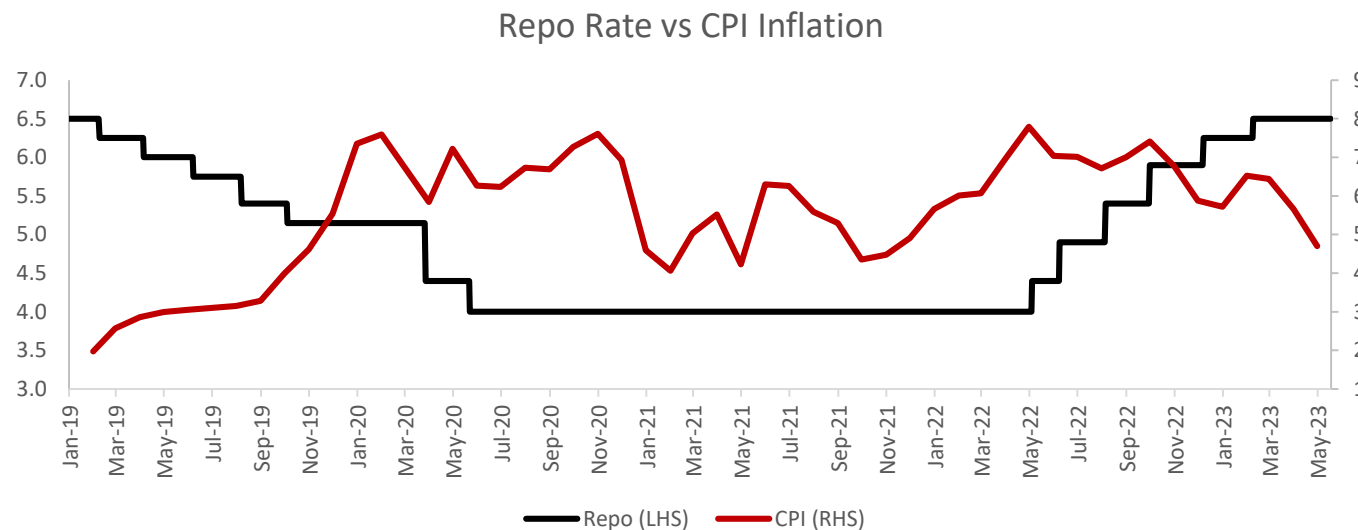


- Over the last few months, the one year forward Fed funds rate has collapsed by almost 60 bps
- Regional Bank crisis in the US led to massive repricing in rates in spite of higher inflation
- With an agreement on debt ceiling looking imminent, markets are pricing in one more rate hike, followed by cuts
- In India too, markets were earlier pricing RBI to reach peak repo rate of 6.75%-7.00%. However, possibility of a lower peak at 6.50% have materially risen

Source: Bloomberg
Data updated as on May 19, 2023

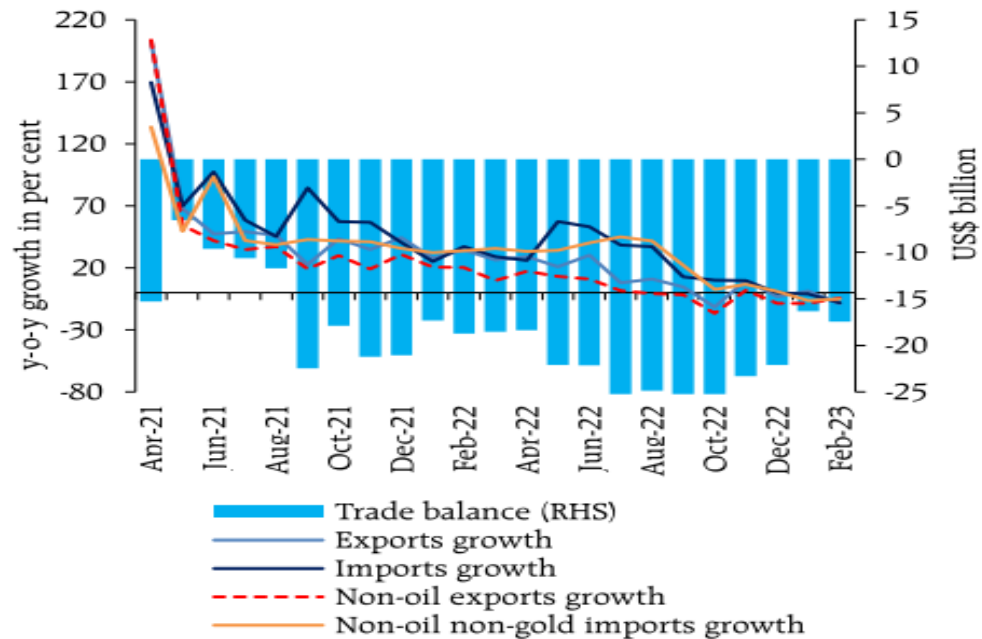
Policy rates in India have peaked

- **Policy rates have peaked:** RBI in all probability has reached terminal rate of 6.50% in it's April 2023 policy meeting
- Cooling off in inflation prints witnessed over the last few readings, with average print lower than RBI estimates
- Going forward, pressure on MPC to further tighten rates has reduced, taking markets closer to peak policy rates
- Broad market expectations is for MPC to continue pause at 6.50% and observe the impact of the consecutive hikes done over the last 1 year

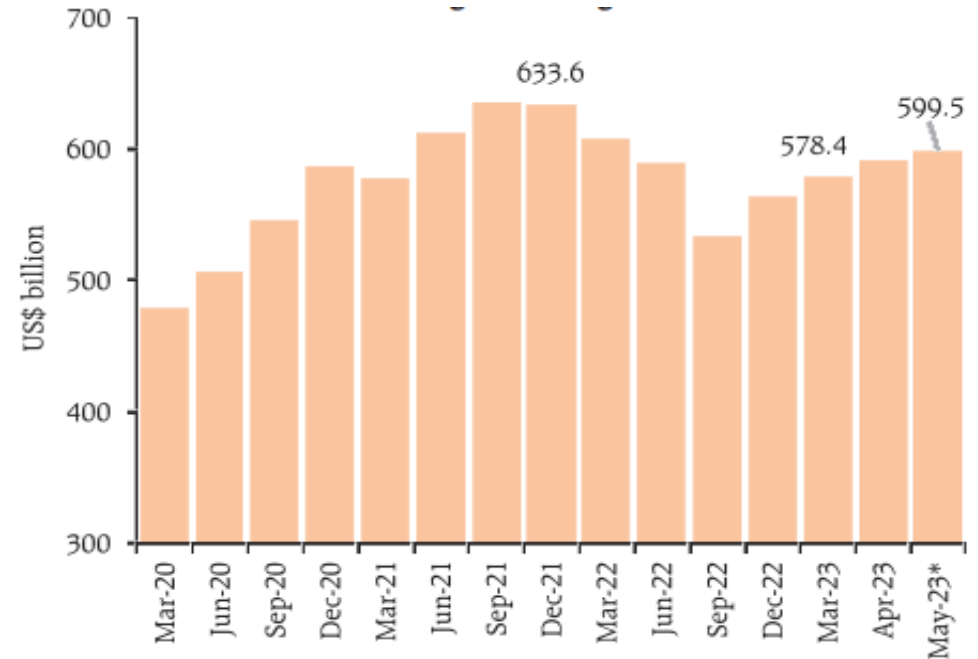


External sector showing resilience

Merchandise Trade Balance



Foreign Exchange Reserves

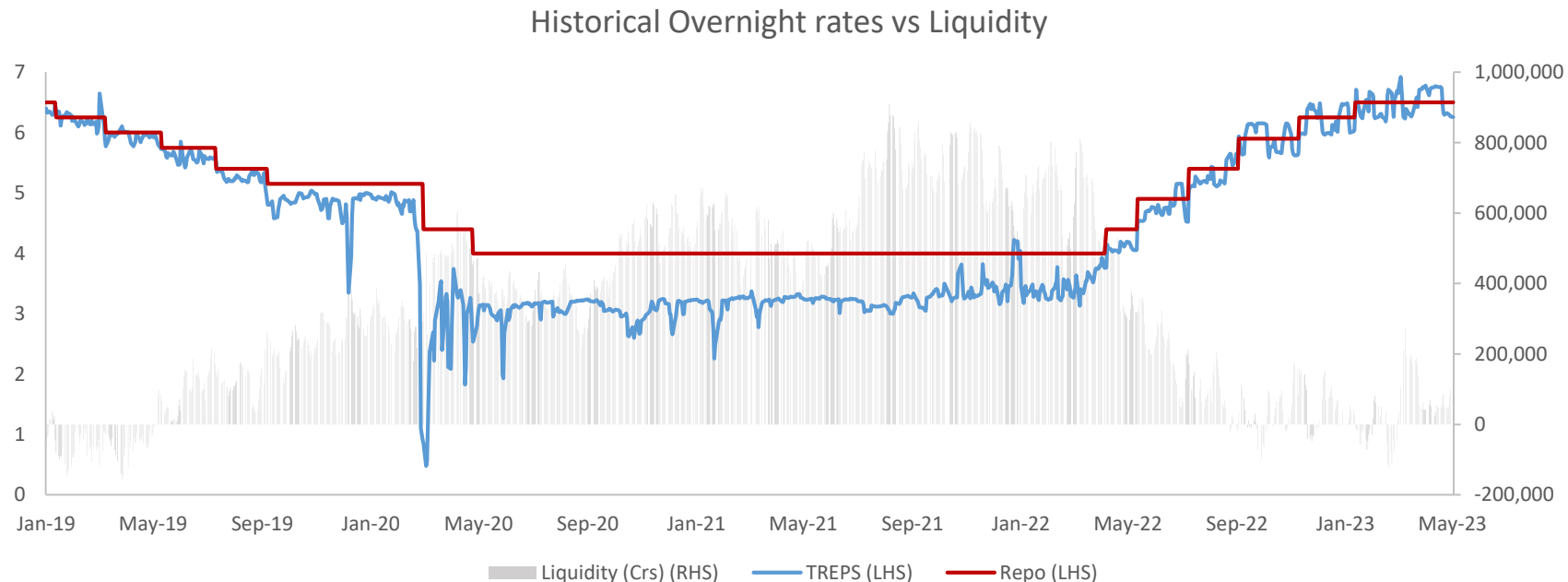


- Merchandise Trade Deficit touched a 21-month low of USD 15.2 bn in Apr 2023
- Current Account Deficit (CAD) narrowed significantly in Q3 FY2023 to 2.2%
- RBI has increased FX Reserves by USD 75 bn since Oct 2022, with the current reserves sufficient to cover 10 months of expected imports

Concerns over CAD have reduced significantly, with expectations now of FY2024 CAD below 2%

Systemic liquidity has flipped to neutral

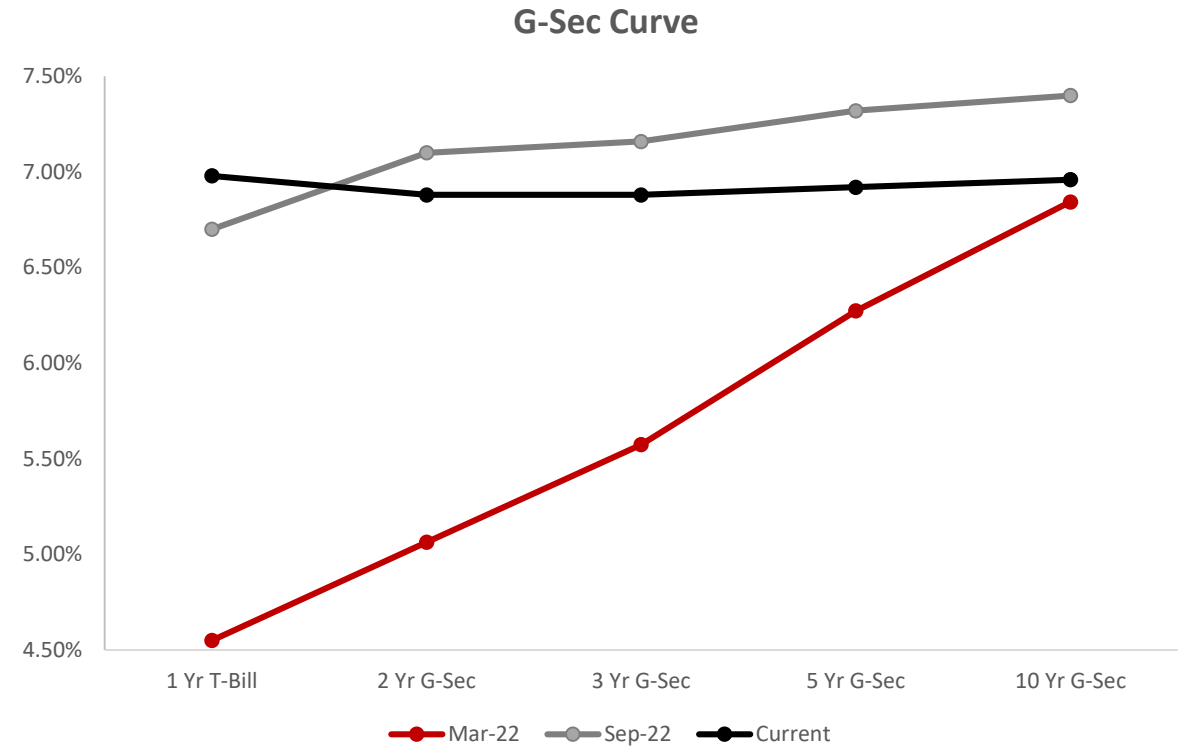
- **Systemic liquidity has flipped to neutral (from huge surplus):** RBI has been successful in bringing down surplus system liquidity to near neutral levels; operating rates are now closer or above REPO rate
- The discontinuation of Rs 2000 bills from circulation is expected to deposit Rs 1.5 Tln into the banking system which might lift off the pressure on liquidity over next few months
- This along with the expectation of RBI to maintain pause on the rate hikes, the absolute levels on the 2-3 year segment of the curve look attractive



Fixed Income – Market movement and flattening of yield curve

| | Mar-22 | Sep-22 | May-23 | May'23 vs Mar'22 (bps) |
|---------------|--------|--------|--------|------------------------|
| 3 mth T-Bill | 3.70% | 6.03% | 6.85% | 315 |
| 1 Yr T-Bill | 4.55% | 6.70% | 6.98% | 243 |
| 2 Yr G-Sec | 5.06% | 7.10% | 6.88% | 182 |
| 3 Yr G-Sec | 5.57% | 7.16% | 6.88% | 131 |
| 5 Yr G-Sec | 6.27% | 7.32% | 6.92% | 65 |
| 10 Yr G-Sec | 6.84% | 7.40% | 6.96% | 12 |
| 3 mth CD | 3.85% | 6.30% | 7.00% | 315 |
| 1 Yr CD | 4.72% | 7.05% | 7.42% | 270 |
| 2 Yr AAA PSU | 5.40% | 7.38% | 7.47% | 207 |
| 3 Yr AAA PSU | 5.83% | 7.50% | 7.48% | 165 |
| 5 Yr AAA PSU | 6.38% | 7.58% | 7.45% | 107 |
| 10 Yr AAA PSU | 7.05% | 7.73% | 7.40% | 35 |

| Credit Spreads (bps) | Mar-22 | Sep-22 | May-23 |
|----------------------|--------|--------|--------|
| 1 Yr | 17 | 35 | 44 |
| 3 Yr AAA PSU | 18 | 21 | 48 |
| 5 Yr AAA PSU | 1 | 13 | 41 |
| 10 Yr AAA PSU | 9 | 19 | 32 |

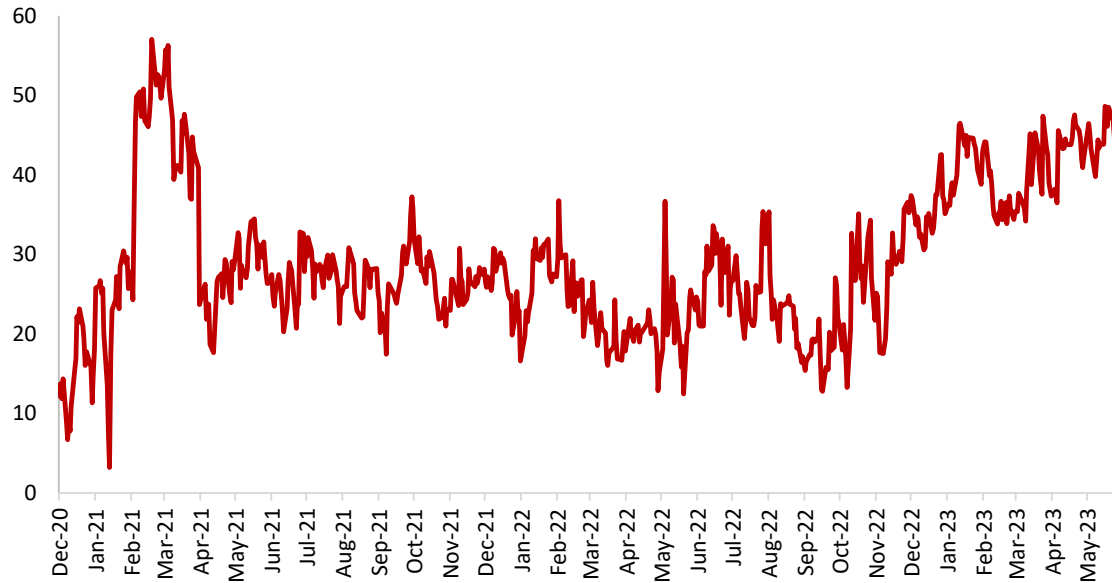


- Sovereign yield curve has flattened with 1 year T-Bill moving up by ~240 bps since Mar'2022 while 10-year G-Sec has moved up by only 12 bps
- Shorter end of the curve (3-month to 1 year) has moved up due to repo rate hikes, tighter liquidity and higher CD issuances
- Credit spreads across the curve have widened with 3 to 5 year spreads moving up to 30-50 bps

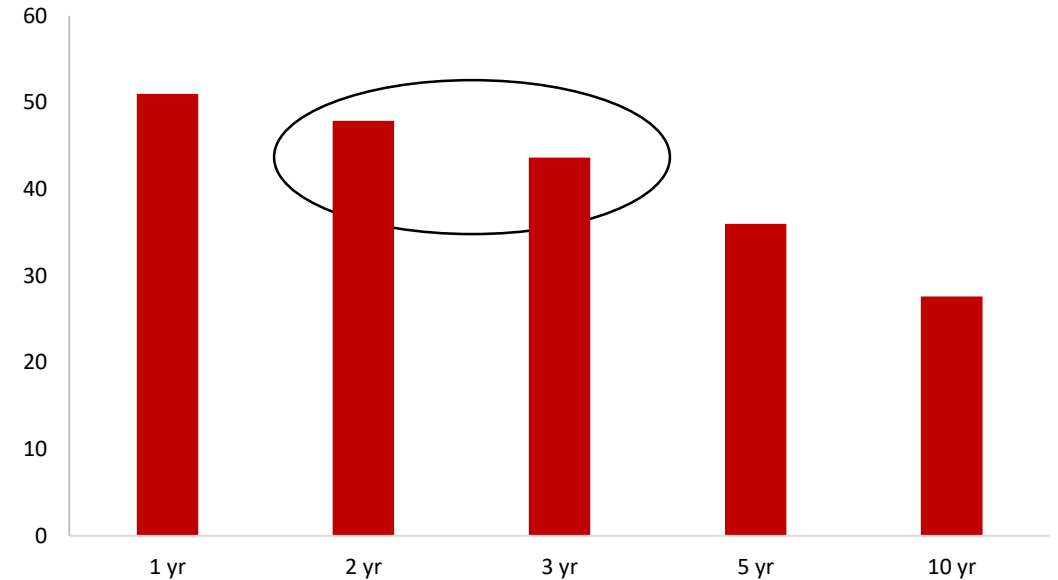
Yield Curve has flattened over the last year

Where do we see value on the curve

3 year AAA PSU vs G-Sec Spread (in bps)



AAA PSU Spread vs G-Sec (tenor wise)

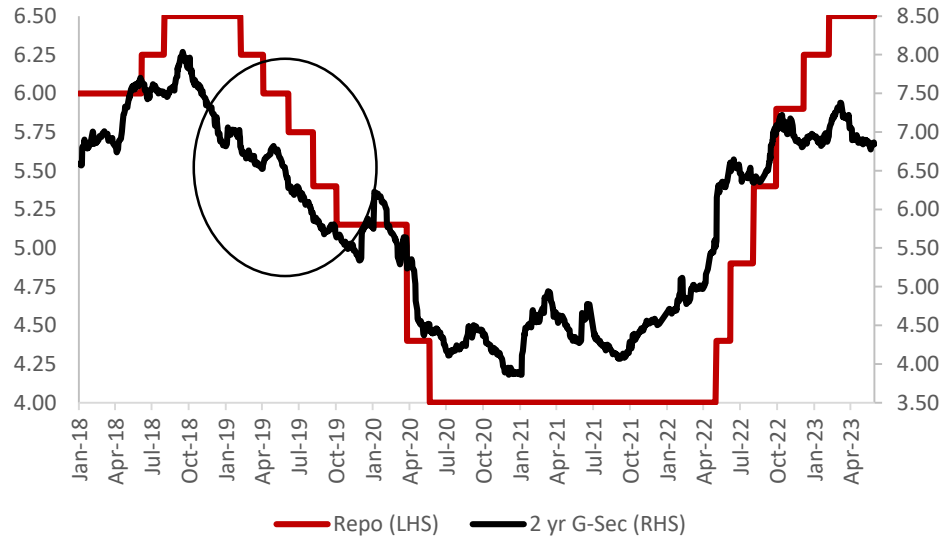


- With current liquidity tightening, 3 year AAA PSU spreads have widened to 40-50 bps
- HSBC Banking and PSU Debt Fund is predominantly positioned in the 2-3 year segment
- Investors with medium term horizon can look to lock-in at these spreads

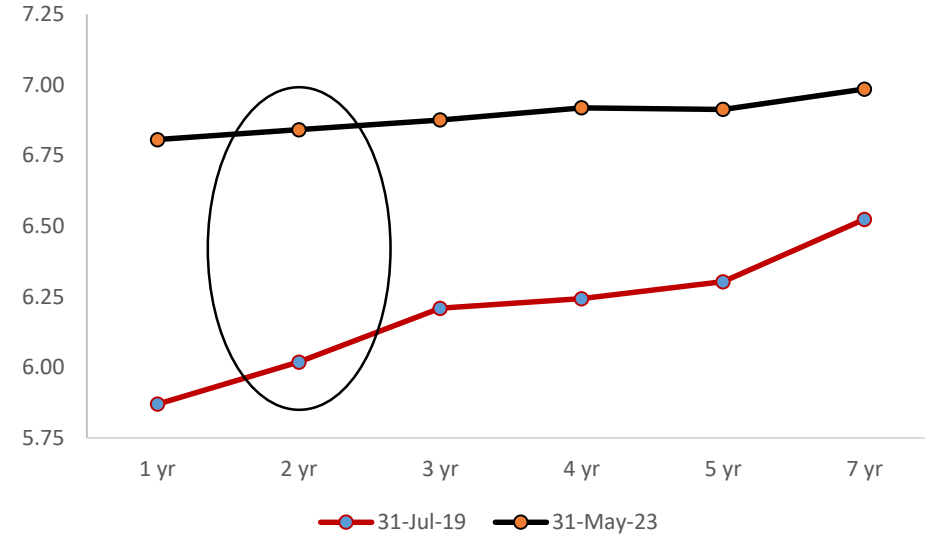
3 year part of the AAA PSU curve offers good relative value

What does the past rate easing cycle tell us?

Movement of 2 yr G-Sec vs Repo Rate



Yield Curve



- In 2019, Repo rate moved from 6.50% to 5.15%. While Repo was at 5.75% (Jul 2019), 2 yr G-Sec had moved down to 6.00%
- Over the course of the year, rate cuts will start getting priced in, with markets expecting around 75 bps of cuts in this cycle
- The 2 year point serves as a good proxy for rate cuts, and provides an attractive opportunity to earn capital gains

Potential of capital gains over the next year, by investing in the 3 year segment looks attractive

Scenario analysis

| Current 2 yr / 3 yr yield | 7.25% | | | | | | |
|-------------------------------|--------|--------|--------|--------|-------|-------|-------|
| 2 yr yield at the end of 1 yr | 6.25% | 6.50% | 6.75% | 7.00% | 7.25% | 7.50% | 7.75% |
| Change in yield | -1.00% | -0.75% | -0.50% | -0.25% | 0.00% | 0.25% | 0.50% |
| Return on Investment | 8.90% | 8.48% | 8.05% | 7.63% | 7.21% | 6.80% | 6.39% |

- Going forward, the liquidity is expected to remain in neutral to positive zone and with rate cut expectations building in, the yield curve will experience steepening
- The 2-3 year part of the curve seems to be poised to gain from the above yield curve movement
- Considering that the 2 year part of the curve rallies by 50-75 bps, the effective return on investments could be 8%-8.50%

3 year part of the AAA PSU curve offers good relative value

Source: Valuation report; Calculation is internal and performed on a single bond
 Data is for illustration purpose only. The above figures are basis various scenarios and actual figures may vary according to market
 Data updated as on May 31, 2023

HSBC Banking and PSU Fund

Fund snapshot and approach

| Fund Category | Fund Manager | Benchmark ^{1, 2} | Inception Date | AUM |
|---------------------------|---------------------------------|--------------------------------|----------------|----------------|
| Banking and PSU Debt Fund | Mahesh Chhabria and Jalpan Shah | NIFTY Banking & PSU Debt Index | 12 Sep 2012 | Rs. 4782.91 Cr |

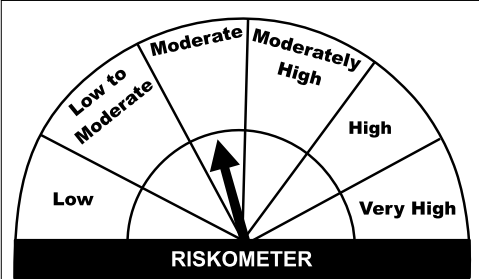
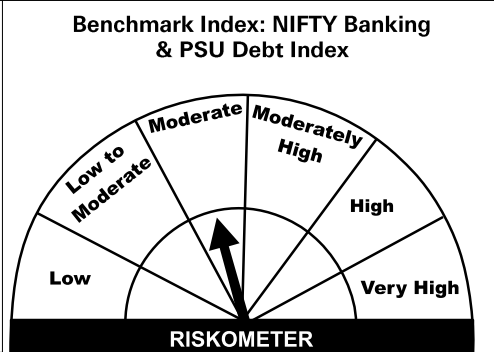
- The scheme is ideally suited for investors seeking a very high portfolio quality
- The fund offers a prudent portfolio considering the risk appetite whilst seeking optimal returns.
- Markets have seen a sharp rise in short to medium term yields over the last few months and the 2-3 year point on the curve offers good value.
- HSBC Banking and PSU Debt Fund is predominantly positioned in the 2026 segment to benefit from this movement.
- Continues to maintain the highest credit quality, with 100% of the portfolio in AAA or equivalent securities.

| Issuer | Sum of % Portfolio |
|---|--------------------|
| GOI | 23.92% |
| NABARD | 9.61% |
| SIDBI | 9.22% |
| PFC Ltd | 8.83% |
| REC Limited | 8.57% |
| NTPC Limited | 8.57% |
| Indian Oil Corporation Limited | 7.24% |
| Export Import Bank of India | 5.53% |
| IRFC Ltd | 4.92% |
| Power Grid Corporation of India Limited | 2.53% |
| HUDCO Ltd | 2.36% |
| National Housing Bank | 2.25% |
| Cash | 2.17% |
| Axis Bank Limited | 2.13% |
| HDFC Bank Limited | 1.99% |
| Kotak Mahindra Bank Limited | 0.11% |
| HDFC Ltd | 0.05% |
| Grand Total | 100.00% |

| Banking and PSU Debt Fund | |
|---------------------------|------------|
| AUM (INR Crs) | 4782.91 |
| Cash | 2.17% |
| NCD | 73.91% |
| G-Sec | 23.92% |
| YTM (%) | 7.30% |
| Avg Maturity (in Days) | 2.91 years |
| Mod Duration (in Days) | 2.48 years |

Source: HSBC MF, Data as on 30 April 2023, Data as per the latest information available

Riskometer

| HSBC Banking & PSU Debt Fund (Erstwhile L&T Banking and PSU Debt Fund) | | |
|---|--|--|
|  <p>RISKOMETER</p> <p>Investors understand that their principal will be at Moderate risk</p> | <p>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.</p> <p>This product is suitable for investors who are seeking*:</p> <ul style="list-style-type: none"> • 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 | <p>Benchmark Index: NIFTY Banking & PSU Debt Index</p>  <p>RISKOMETER</p> |
| <p>* Investors should consult their financial advisers if in doubt about whether the product is suitable for them.</p> <p>Note on Risk-o-meters: Riskometer is as on 30 April 2023, as per the latest available data, 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</p> | | |

Potential Risk Class (HSBC Banking and PSU Debt Fund)

| Credit Risk → | Relatively Low (Class A) | Moderate (Class B) | Relatively High (Class C) |
|--|--------------------------|--------------------|---------------------------|
| Interest Rate Risk ↓ | | | |
| Relatively Low (Class I) | | | |
| Moderate (Class II) | | | |
| Relatively High (Class III) | A-III | | |
| A Scheme with Relatively High interest rate risk and Low credit risk. | | | |

Data as on 30 April 2023, Data as per the latest information available

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HSBC Asset Management

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