



# FOCUS FUND

## HSBC Short Duration Fund (HSDF)

Short Duration Fund - An open ended short term debt scheme investing in instruments such that the Macaulay duration<sup>^</sup> of the portfolio is between 1 year to 3 years.<sup>1</sup> Please refer Page no. 9 of the SID for explanation on Macaulay duration. Moderate interest rate risk and moderate credit risk.

January 2022

### View on Short Duration segment

#### Accommodative but cautious RBI

- Unanimous decision by MPC (Monetary Policy Committee) in December maintaining Status quo on rates and 5-1 vote in favor of retaining accommodative stance. However, RBI announced that it would increase fortnightly 14-day variable rate reverse repo (VRRR) in a gradual manner to up to INR 7.5 lakh crores by end December 2021 (from current INR 6 lakh crores). However, the window has not been fully utilized by banks as banks have preferred to park surpluses in shorter tenor VRRRs.

#### Long bonds are likely to be volatile given supply concerns, lack of RBI OMO support and global macro-environment

- Global bond yields such as US Treasury yields have inched up sharply in the past one month given expectations of central banks tightening liquidity and interest rates faster than was earlier discounted.
- After announcing INR 1tn in Q1 and INR 1.2 tn in Q2, RBI discontinued GSAP in October policy. RBI has not announced any OMO post October and has sold small quantum of G-Sec in secondary markets on a periodic basis. As a result, demand- supply dynamics for G-Sec remains a concern. Also, the extent of supply in the near term from G-sec and SDL front is largely towards the duration segment, with H2 borrowing in the 2-5 year segment being lower.
- These are likely to make G-Sec in the belly of the curve and long bonds more volatile.

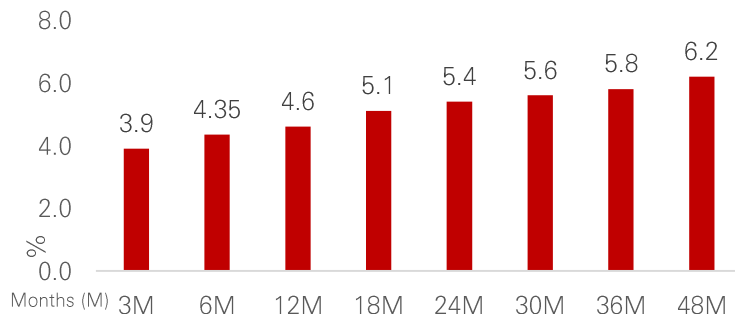
#### Steepness in G-Sec and Corporate yield curve offers attractive carry and roll down

- The short and medium part of the corporate curve still remains attractive from carry play point of view and have to a reasonable extent, discounted RBI's calibration in liquidity. We also like the short-medium part of Government securities curve as current three years point over one year and five-seven years point over one/three year offers attractive risk-return tradeoffs.

#### Corporate spreads expected to be largely well behaved

- Supply in corporate bonds in the short to medium segment remains reasonable. While spreads are tight v/s Government securities, we may not see much expansion in spreads given the supply demand dynamics. While some volatility cannot be ruled out towards end of the fiscal, ample liquidity and demand for bonds in the short to medium duration segment, we expect spreads to be well behaved over the medium term.

#### AAA rate curve



With overnight rates between 3.5%-4% and ultra-short end of the curve between 4% and 4.50%, the 24m - 48m segment currently at 5.30% - 6.2% discount likelihood of 25-30 bps hardening at ultra-short end. This is due to VRRR and RBI action over next 6 months. And any excess hardening of say up to 30bps can still be able to generate at par with Ultra short / low duration funds over next 6 - 12m holding period given the steepness of 130-150 bps over 1 to 4 year part of the curve

Source: HSBC Asset Management, India, Data as of 31 December 2021 <sup>1</sup> Pursuant to the circular issued by SEBI on 'Categorization and Rationalization of the Schemes, there has been change in the fundamental attribute(s) of the aforesaid effective from Mar 14, 2018.

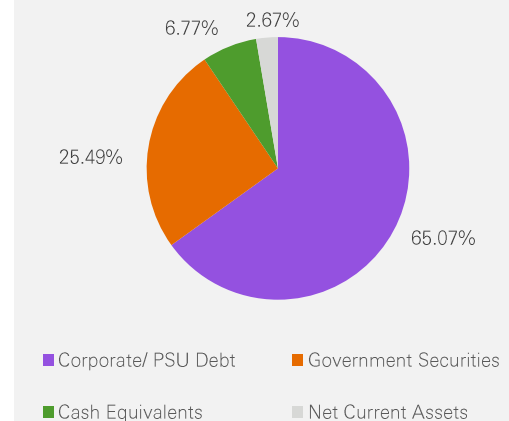
<sup>^</sup> The Macaulay duration is the weighted average term to maturity of the cash flows from a bond. The weight of each cash flow is determined by dividing the present value of the cash flow by the price. Please refer to the page number 9 of the Offer Document on which the concept of Macaulay's Duration has been explained

## Portfolio

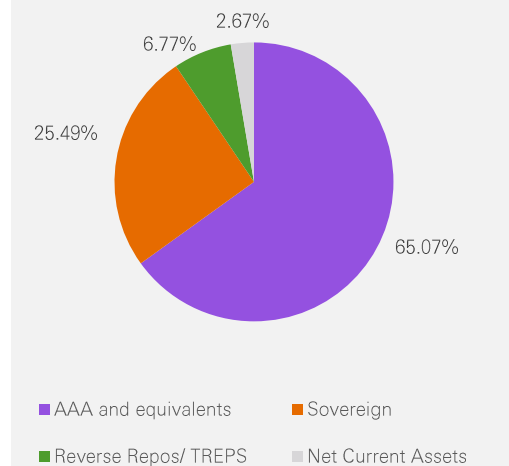
Issuer	Ratings	% to Net Assets
<b>Corporate/ PSU Debt</b>		
<b>Corporate Bonds / Debentures</b>		<b>65.07%</b>
L&T Finance <b>Top 10</b>	CRISIL AAA	11.68%
Sikka Ports and Terminals <b>Top 10</b>	CRISIL AAA	7.12%
Export Import Bank of India <b>Top 10</b>	CRISIL AAA	7.10%
LIC Housing Finance <b>Top 10</b>	CRISIL AAA	6.88%
Kotak Mahindra Prime <b>Top 10</b>	CRISIL AAA	6.85%
REC <b>Top 10</b>	CARE AAA	4.85%
Power Finance Corporation <b>Top 10</b>	CRISIL AAA	4.72%
HDB Financial Services <b>Top 10</b>	CRISIL AAA	4.54%
Bajaj Housing Finance	CRISIL AAA	4.51%
Sundaram Finance	CRISIL AAA	4.51%
Housing Development Finance Corp	CRISIL AAA	2.31%
<b>Government Securities</b>		<b>25.49%</b>
5.22% GOVT OF INDIA RED 15-06-2025 <b>Top 10</b>	SOVEREIGN	6.76%
6.18% GOVT OF INDIA RED 04-11-2024 <b>Top 10</b>	SOVEREIGN	4.66%
8.5% JAMMU & KASHMIR SDL RED 30-03-2025	SOVEREIGN	2.45%
8.58% GUJARAT SDL RED 23-01-2023	SOVEREIGN	2.36%
8.59% ANDHRA PRADESH SDL RED 23-01-2023	SOVEREIGN	2.36%
8.6% MADHYA PRADESH SDL RED 23-01-2023	SOVEREIGN	2.36%
8.65% UTTAR PRADESH SDL 10-03-2024	SOVEREIGN	1.94%
8.66% WEST BENGAL SDL RED 20-03-2023	SOVEREIGN	1.66%
8.73% UTTAR PRADESH SDL 31-12-2022	SOVEREIGN	0.94%
<b>Cash Equivalent</b>		<b>9.44%</b>
<b>TREPS*</b>		<b>2.24%</b>
<b>Reverse Repos</b>		<b>4.53%</b>
<b>Net Current Assets:</b>		<b>2.67%</b>
<b>Total Net Assets as on 31-Dec-2021</b>		<b>100.00%</b>

\*TREPS : Tri-Party Repo

## Asset Allocation



## Rating Portfolio



## Current Portfolio Strategy

- From medium term perspective, HSBC Short Duration Fund is expected to benefit from attractive carry at short and medium part of the curve.
- It offers value for investors at current short-term yields over funding cost in terms of spread.
- In recent months, we have witnessed some volatility in the short to medium segment as yields have inched upwards given the increasing absorption of liquidity through VRRR auctions.
- However, the short and medium part of the curve still remains attractive from carry play point of view and have to a reasonable extent, discounted RBI's calibration in liquidity.
- The current steepness in the 2 yr segment will most likely benefit despite firming up of rates at the ultra-short end of the curve given the steepness in the curve currently.
- We also like the short-medium part of Government securities curve as current three years point over one year and five-seven years point over one/three year offers attractive risk-return tradeoffs.
- The extent of supply in H2 and going into FY 23 from G-sec and SDL front is largely towards the 10-14yr and 30yr segments and this should keep the pressure contained in the medium part of the segment.
- Overall, the pick-up versus overnight rate is quite attractive in the short-medium segment on the G-sec curve and alongside on the corporate curve. As such we intend to maintain a neutral duration versus the index in near term.

Source: HSBC Asset Management, India, Data as of 31 December 2021

## Rationale on existing credit exposures\* (Top 5)

- 1. L&T Finance:** L&T Finance is the flag ship NBFC of the L&T group with a diversified lending model. The key strength emerges from strategic importance to the L&T group as a whole and expected support from ultimate parent L&T. Liquidity is very strong and asset quality is manageable. While recent past performance of the industry has been under stress, this entity has been able to manage well with strong liquidity support. While operating environment will be challenging, company seems to be faring better than many peers in the sector given its diversified book and parentage.
- 2. Sikka Ports and Terminals Ltd:** Sikka Ports and Terminals Limited (SPTL) is classified as an “Associate Company” of Reliance Industries Limited. It is owned 100% by Reliance Industries Holdings Private Limited (RIHPL). RIHPL is a holding company which is the private investment vehicle for holding several RIL group assets within the Reliance Industries – group companies. SPTL operates as a captive port and provides port infrastructure facilities to enable imports (mainly of crude oil) and exports (refinery and petrochemical products) of RIL. The operations of the company are critical for RIL as they are closely integrated with the facilities of its refining and petrochemical segments. Being the major handler of RIL’s refining/petrochemical volumes, the entity remains strategically important to the RIL group. Apart from the above operations, SPTL is also engaged in operating and hiring construction equipment and machinery, and is a co-developer of Jamnagar special economic zone (SEZ). For the purpose of handling crude oil and petroleum and petrochemical products of RIL, SPTL has entered into long term throughput agreements with RIL for the two refineries at Jamnagar thus providing long term revenue visibility and stable cash flows to the company. The assured revenue stream and timely receipt of receivables from the strong counterparty enables SPTL to honor its debt commitments in timely manner. Strong parentage derived from Reliance Industries group shareholding and strategic importance to Reliance Industries handling the ports and logistics operations is a strong positive. In addition, company has a strong cash flow generation.
- 3. EXIM:** 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.
- 4. LIC Housing Finance:** 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
- 5. Kotak Mahindra Prime Limited:** Company is a subsidiary of Kotak Mahindra Bank and has strong financial profile, robust asset quality and very strong governance. Liquidity and access to funding remains strong. Company has always maintained a robust credit appraisal system, resulting in a well-managed asset quality, strong capitalization and reasonable profitability. Liquidity profile is strong access to financial markets is also well entrenched. Having a strong asset quality prior to the pandemic and very strong focus on underwriting high quality assets is less likely to pressure asset quality post moratorium. Overall, strong parentage, shared brand name, underscores the importance of the entity to the group stands out as the over-riding comfort on the name.

Source: HSBC Asset Management, India, Data as of 31 December 2021

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## Investment Objective:

To provide reasonable income through a diversified portfolio of fixed income securities such that the Macaulay duration<sup>^</sup> of the portfolio is between 1 year to 3 years. However, there can be no assurance or guarantee that the investment objective of the scheme would be achieved.

## Fund Details



### Fund Manager<sup>3</sup>

Ritesh Jain



### AUM (as on 31.12.21)

219.70 Cr



**Average Maturity** | 1.86 years

**Modified Duration** | 1.65 years

**Macaulay Duration** | 1.73 years

**Yield to Maturity<sup>2</sup>** | 5.23%



### Benchmark

CRISIL Short Term Bond Fund Index<sup>4</sup>



### Inception Date

10 December 2002



### Exit Load

NIL

<sup>2</sup> YTM Based on invested Amount

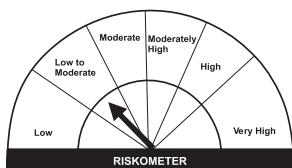
<sup>3</sup> The said Fund is managed by Ritesh Jain effective September 01, 2020

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4. 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

### HSBC Short Duration Fund Riskometer

#### HSBC Short Duration Fund



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

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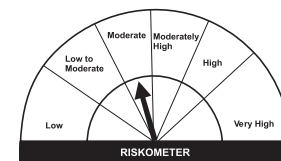
This product is suitable for investors who are seeking<sup>##</sup>:

- Regular Income over Medium term.
- Investment in diversified portfolio of fixed income securities such that the Macaulay<sup>^</sup> duration of the portfolio is between 1 year to 3 years.

<sup>##</sup> 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: CRISIL Short Term Bond Index



### Potential Risk Class (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)

Relatively High (Class III)

**BII**

"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."

Source: HSBC Asset Management, India, (HSBC AMC), Bloomberg. Data as of 31 December 2021

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

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