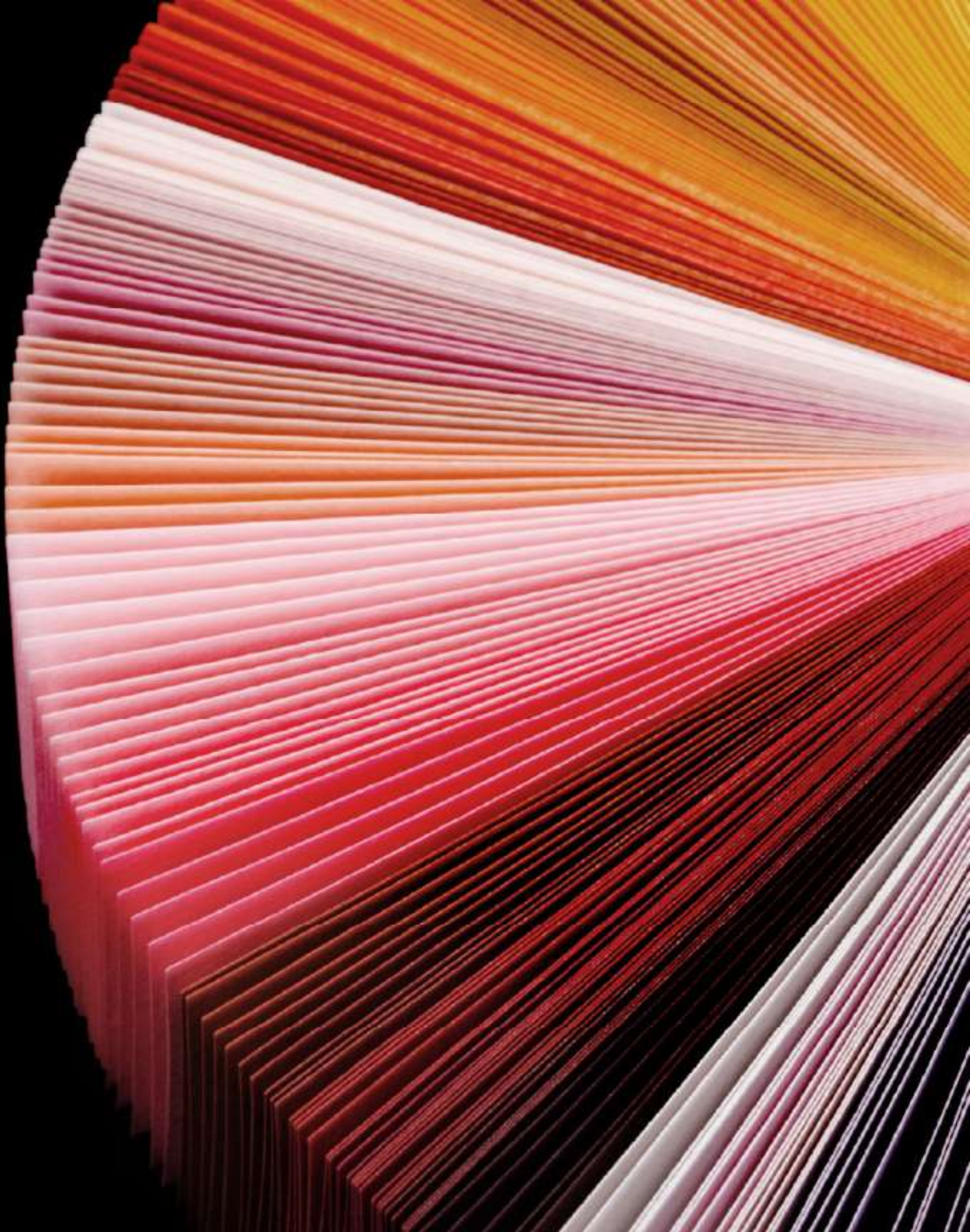
# HSBC Dynamic Bond Fund

Product Deck

May 2023

HSBC Mutual Fund

# Fixed Income Market Update



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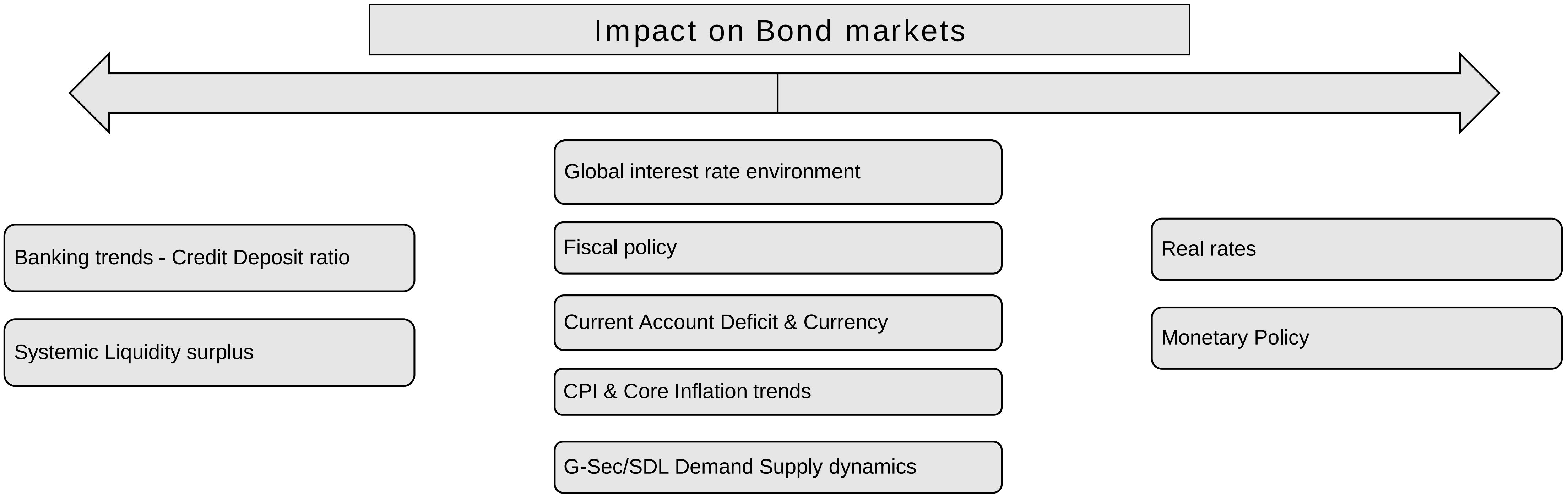
# Fixed Income Top-down Macro economic factors




- 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

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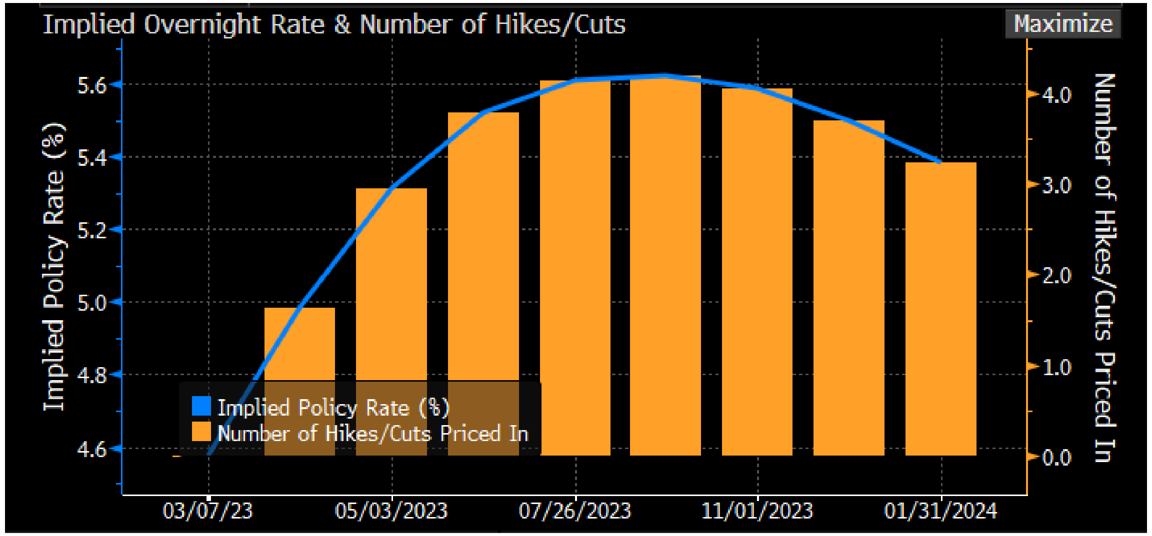
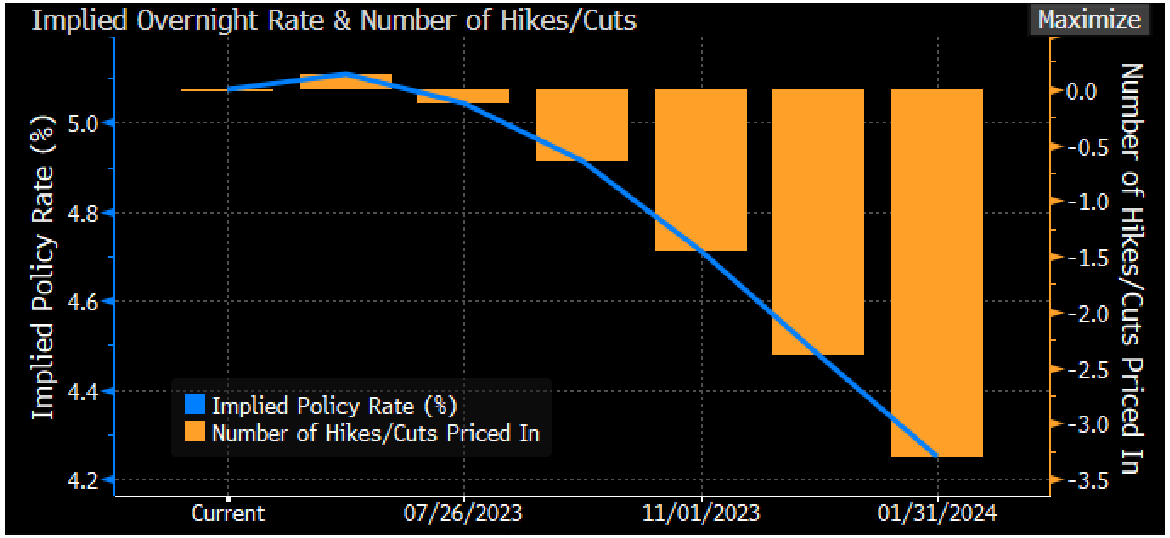
Source: Bloomberg, RBI
Data updated as on May 17, 2023

# Wild swings in Fed Funds Rate on expectations of Fed pivot & flight to safety

US Fed expectations on 8-Mar-23




US Fed expectations on 17-May-23




- In less than a month's time, the one year forward Fed funds rate has collapsed by almost 100bps
- Regional Bank crisis in the US has led to massive repricing in rates in spite of higher inflation
- 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

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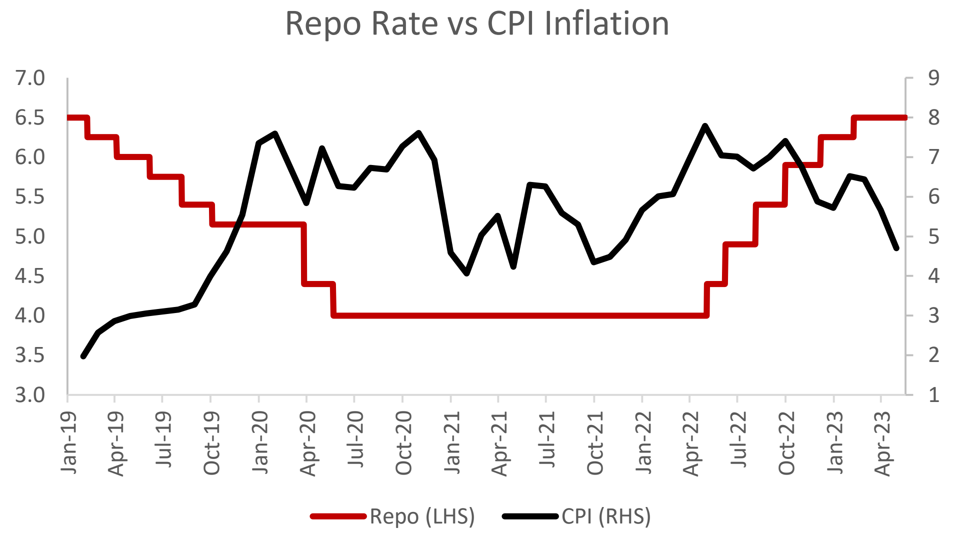
Source: Bloomberg
Data updated as on May 17, 2023

# Policy rates 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

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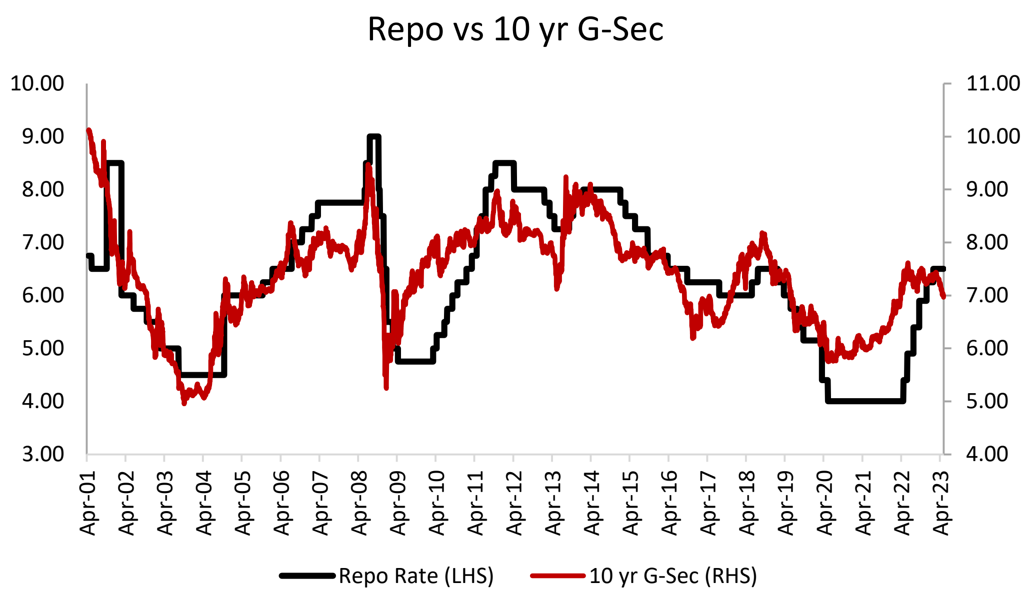
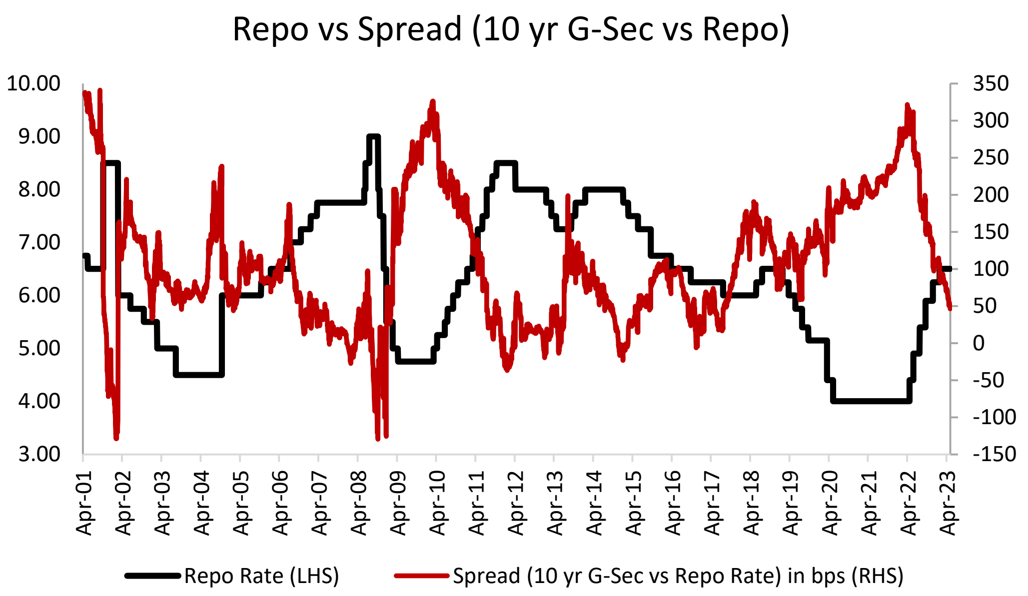
Source: Bloomberg
Data updated as on May 17, 2023

# Fixed Income – G-Sec markets pre-empt rate actions




- Movement in G-Sec starts much before the actual rate action; Spreads are typically high before the first rate hike and are low before the first rate cut
- Barring the 2013 period where rates in India shot up rapidly, 10-year G-Sec yields have remained broadly below 8% over the last 10 years
- Strengthening macro-economic factors, strong FX reserves and stable currency remain the key differentiators from the 2013 episode

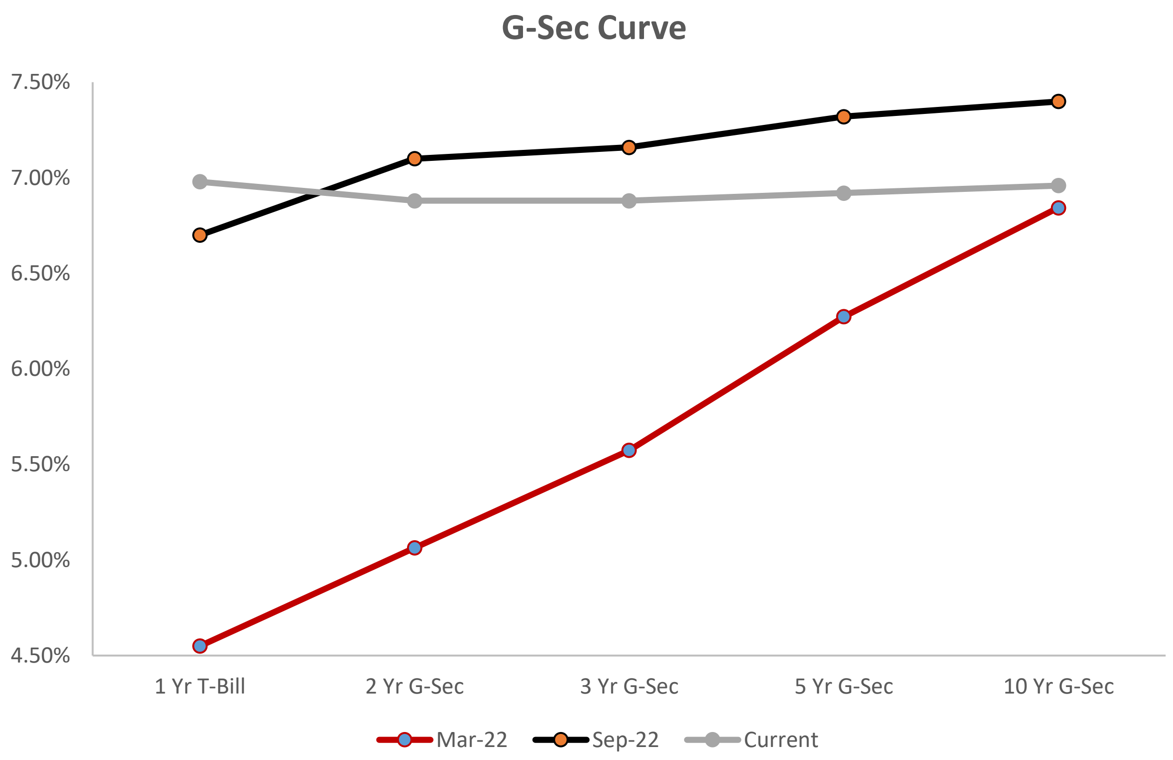
**Although rate cuts might not be imminent, adding positions gradually might be better than timing entry points**

Source: Bloomberg
Data updated as on May 17, 2023

# Fixed Income – Market movement and Flattening of yield curve

| | Mar-22 | Sep-22 | Current | Mar'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 | Mar-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 |

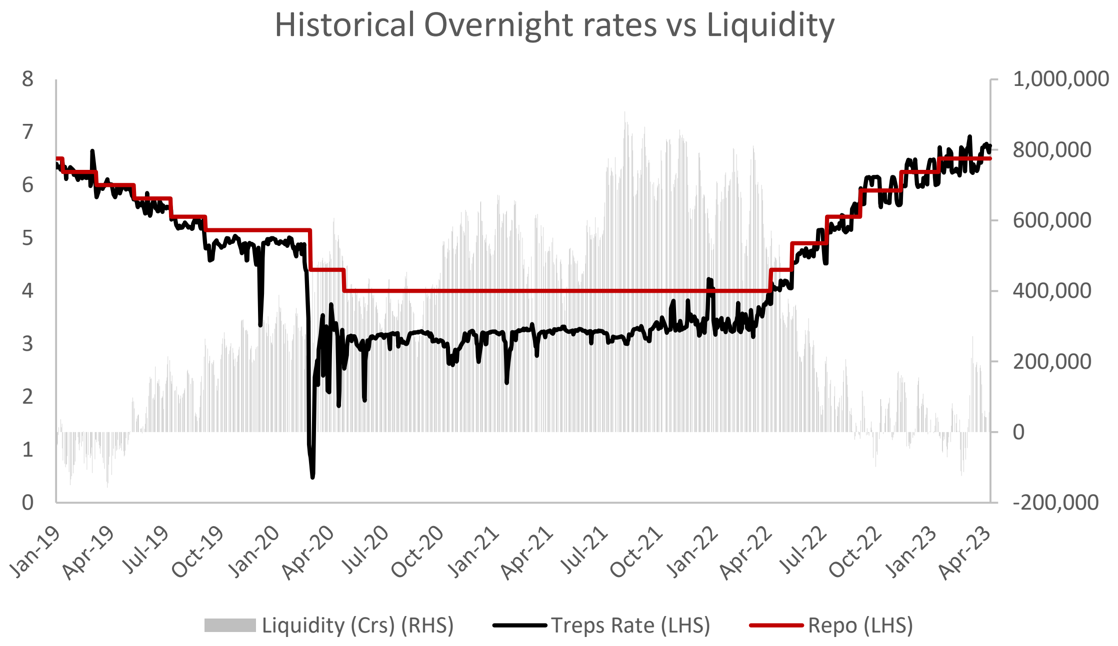


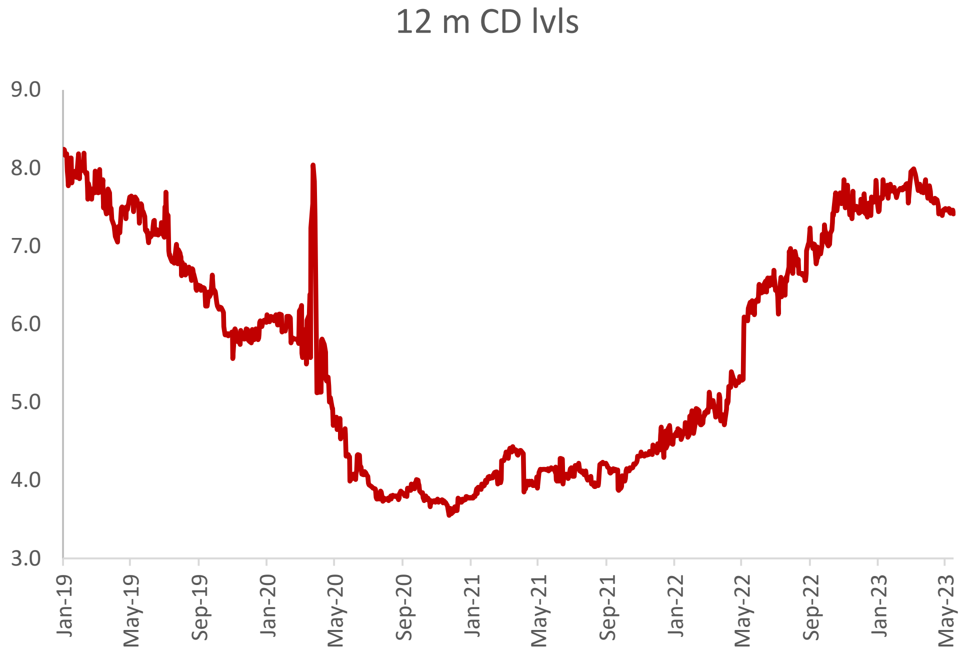

- Sovereign yield curve has flattened with 1 year T-Bill moving up by ~240 bps since Mar'2022 while 10-year G-Sec has moved up by only 12 bps
- Shorter end of the curve (3-month to 1 year) has moved up due to repo rate hikes, tighter liquidity and higher CD issuances
- Credit spreads across the curve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

**Yield Curve has flattened over the last year**

# 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
- With liquidity likely to remain neutral to slightly negative over the next few months, spreads in the 1 year space continue to look attractive




Source: Bloomberg
Data updated as on May 17, 2023

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# HSBC Dynamic Bond Fund

## Fund snapshot and approach

| Fund Category | Fund Manager | Benchmark [1, 2] | Inception Date | AUM |
|---|---|---|---|---|
| Dynamic Bond | Jalpan Shah and Shriram Ramanathan | NIFTY Composite Debt Index A-III | 27 Sep 2010 | Rs. 199.25 Cr |

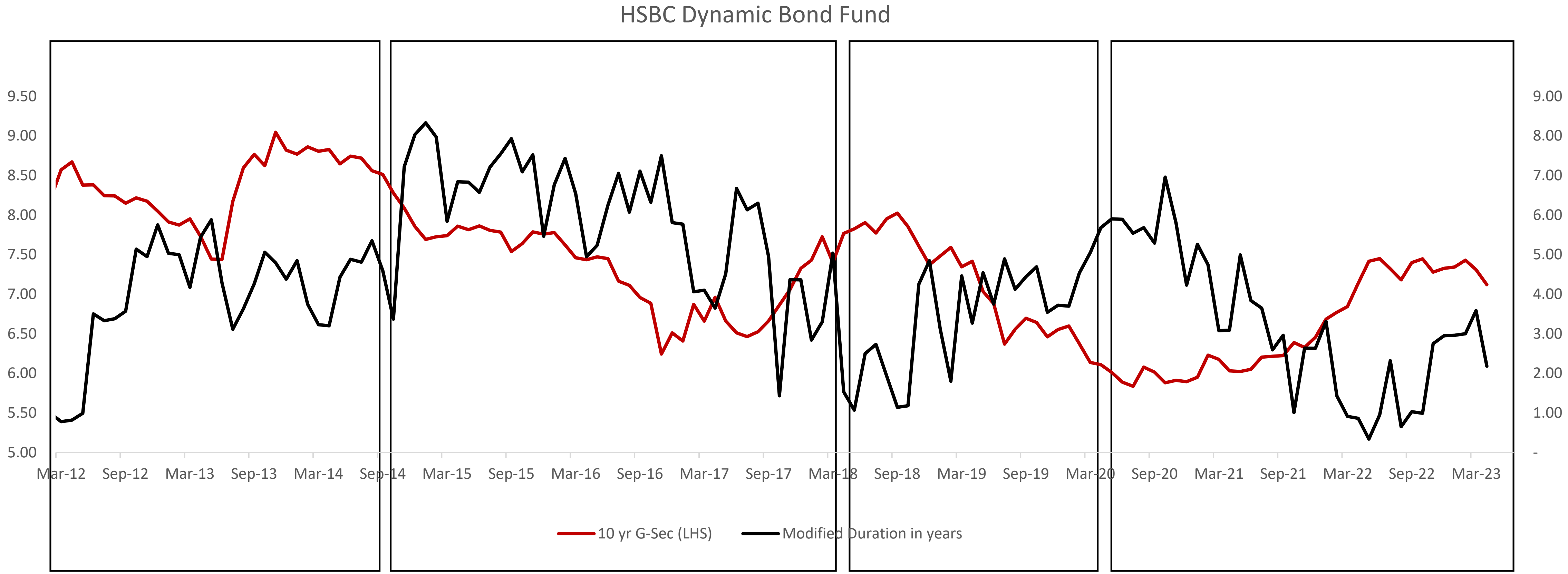
- Actively managed fund investing across the yield curve in Govt. Securities and high-quality AAA rated credits to generate alpha
- Dynamic duration management to seize potential upsides when interest rates are expected to soften while also reducing risks in an uncertain environment
- Diversified portfolio spread across government securities, corporate bonds and money market instruments.
- Investments in a highly liquid portfolio to enable positioning changes based on evolving scenario.
- Current investment mix of NCD and G-Sec

| Issuer | Sum of % portfolio |
|---|---|
| GOI | 22.70% |
| Rec Limited | 8.10% |
| Reliance Industries Limited | 7.53% |
| SIDBI | 7.92% |
| NABARD | 7.74% |
| National Housing Bank | 7.50% |
| Indian Oil Corporation Limited | 7.48% |
| LIC Housing Finance Limited | 5.03% |
| HDFC Ltd | 4.91% |
| Cash | 21.20% |
| **Grand Total** | **100.00%** |

| Dynamic Bond Fund | |
|---|---|
| AUM (INR Crs) | 199.25 |
| Cash | 6.2% |
| NCD | 56.21% |
| G-Sec | 42.65% |
| YTM (%) | 22.7% |
| Avg Maturity (in Days) | 2.79 years |
| Mod Duration (in Days) | 2.18 years |

Source: Portfolio Factsheet
Data updated as on April 28, 2023

# Active Duration Management – Dynamic Bond Fund




- March-12 to Sept-14 : The fund was able to increase duration during the rate cutting cycle and gradually increase duration as the rates peaked
- Sept-14 to March-18 : The fund operated on higher duration during the one way movements in rates till Sept-17 and then decreased duration.
- March-18 to March-20: During the rate cutting cycle, the duration of the fund was on higher side.
- March-20 to March-23: During covid rate cuts, the fund had higher duration while post covid rate hikes, the duration was reduced.

Source: Bloomberg, Monthly Portfolio Factsheet
Data updated as on April 28, 2023

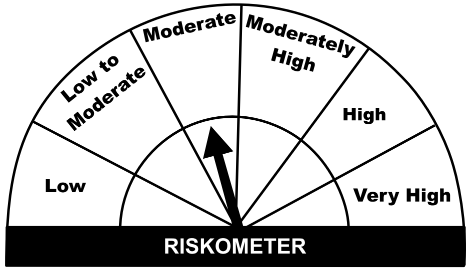
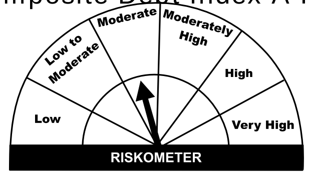
# HSBC Dynamic Bond Fund

HSBC Dynamic Bond Fund An open-ended dynamic debt scheme investing across duration. A relatively high interest rate risk and relatively low credit risk

- Fund Strategy:
    - Increased Duration from below 1 year during the rate hiking cycle to ~ 2-4years currently.
    - Increased duration through Gsec in the 4-10 year
    - Increased duration through AAA bonds in 1- 5 year Segment.
    - Continue with 100% long term AAA rating in Bond exposures ensuring very high portfolio quality.

Source: HSBC Mutual Fund, Data updated as on March 31, 2023

# Product Label

| HSBC Dynamic Bond Fund (Erstwhile L&T Flexi Bond Fund) | | |
|---|---|---|
|  Investors understand that their principal will be at Moderate risk | Dynamic Bond Fund - An open ended dynamic debt scheme investing across duration. A relatively high interest rate risk and relatively low credit risk.<br>This product is suitable for investors who are seeking*:<br>• Generation of reasonable returns over medium to long term<br>• Investment in fixed income securities<br>* Investors should consult their financial advisers if in doubt about whether the product is suitable for them.<br>Note on Risk-o-meters: Riskometer is as on 30 April 2023, 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 Composite Debt Index A-III<br> |

| Potential Risk Class (HSBC Dynamic Bond Fund) | | | |
|---|---|---|---|
| Credit Risk →<br>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) | A-III | | |
| A Scheme with Relatively High interest rate risk and Low credit risk. | | | |

Data as of 30 April 2023

HSBC Mutual Fund

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