FOCUS FUND

HSBC Low Duration Fund (HLDF)

Low Duration Fund - An open ended low duration debt scheme investing in instruments such that the Macaulay duration^ of the portfolio is between 6 months to 12 months.[1] (Formerly known as HSBC Ultra Short Term Bond Fund)

November 2021

View on Low Duration segment

Accommodative but cautious RBI

- Unanimous decision by MPC (Monetary Policy Committee) maintaining Status quo on rates and 5-1 vote in favor of retaining accommodative stance; inflation estimate revised downwards sharply for Q2 and Q3 and overall for FY 23 by 40 bps; FY22 GDP estimate unchanged at 9.5%. However, increased fortnightly 14-day variable rate reverse repo (VRRR) in a gradual manner to up to INR 6 lakh crores by end December 2021 (from current INR 4 lakh crores).

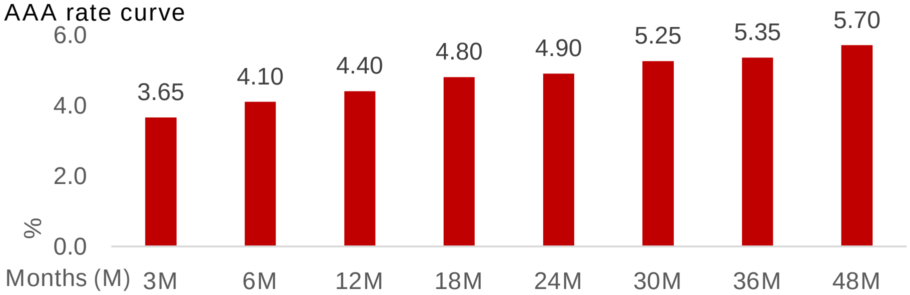
Liquidity calibration and normalization of reverse repo – repo rate corridor being priced in

- Upto 2 yr part of the curve has inched upwards by ~25-30 bps in the past one month. RBI has introduced 28 day VRRRs in addition to 14 day VRRR and cutoff in 14 day and 28 day VRRRs have inched up higher in the past month as markets are factoring in the calibration of liquidity normalization and possible hike in reverse repo rates over the next 2 to 4 months

Steepness in the curve up to 2 years offers attractive carry

- Steepness between 2 year and 1 year point on the curve remains attractive at 50+ bps and between 1 year and 3m at ~60 bps. Even if RBI normalizes the corridor between reverse repo and repo rate by hiking the reverse repo rate, the overnight rates are likely to remain below 4% in the foreseeable future. Current 1yr AAA rate at ~4.40% and 2 yr at ~4.90-5.0% offer sufficient steepness factoring in normalization of liquidity conditions

AAA rate curve



- With overnight and ultra-short trading/pricing over reverse repo of 3.35%, the 24m - 36m segment currently at 4.90% - 5.35% discount likelihood of 20-25 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 ~100 bps over 1 to 3-year part of the curve

[1] 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.

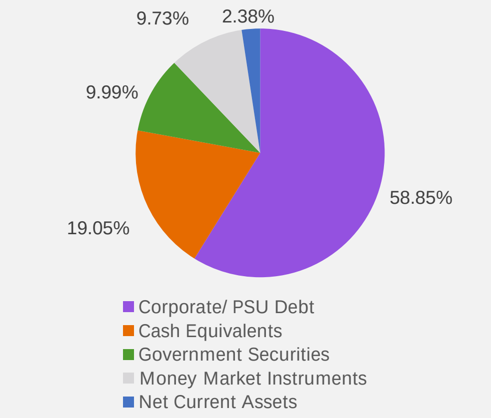
^ The Macaulay duration is the weighted average term to maturity of the cash flows from a bond. The weight of each cash flow is determined by dividing the present value of the cash flow by the price. Please refer to the page number 9 of the Offer Document on which the concept of Macaulay's Duration has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

Portfolio

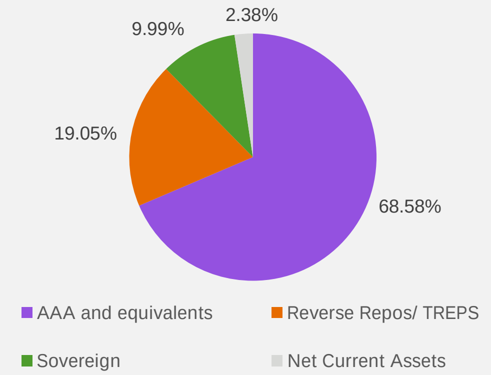
Issuer	Rating	% to Net Assets
Money Market Instruments		
Certificate of Deposit		9.73%
HDFC Bank Top 10	CRISIL A1+	9.73%
Corporate/ PSU Debt		
Corporate Bonds / Debentures		54.71%
National Bk for Agriculture & Rural Dev. Top 10	CRISIL AAA	8.25%
Export Import Bank of India Top 10	CRISIL AAA	8.22%
L&T Finance Top 10	CRISIL AAA	8.01%
REC Top 10	CARE AAA	6.10%
Housing Development Finance Corp Top 10	CRISIL AAA	6.05%
HDB Financial Services Top 10	CRISIL AAA	6.05%
Reliance Industries Top 10	CRISIL AAA	6.01%
Bajaj Finance	CRISIL AAA	3.94%
Power Grid Corporation of India	CRISIL AAA	2.08%
Zero Coupon Bonds		4.14%
LIC Housing Finance Top 10	CRISIL AAA	4.14%
Government Securities		9.99%
8.20% GOVT OF INDIA RED 15-02-2022 Top 10	SOVEREIGN	9.99%
Cash Equivalent		21.43%
TREPS*		5.38%
Reverse Repos		13.67%
Net Current Assets:		2.38%
Total Net Assets as on 31-Oct-2021		100.00%

*TREPS : Tri-Party Repo

Asset Allocation



Rating Portfolio



Current Portfolio Strategy

- The entire Money-market curve is centric to the overnight funding cost which is around the reverse-repo rate for now.
- However, there have been bouts of volatility in the month of October as RBI has absorbed increased quantum through variable rate reverse repo (VRRR) auctions.
- Nevertheless, despite phased increase in variable reverse repo rate (VRRR) auction, liquidity is likely to stay ample in the near term.
- Going into 2022, we may see the prospects of liquidity reversal firming up.
- Therefore, while rates are expected to remain stable, some pockets of volatility cannot be wished away.
- The strategy in the Low Duration Fund is to maintain neutral duration eying accrual and roll-down gains taking advantage of the steepness in the curve.

Rationale on existing credit exposures* (Top 5)

1. HDFC Bank Ltd: HDFC Bank is the largest private sector banks in India with total assets of Rs 17,53,941 crore as on June 30, 2021 (Rs 17,46,871 crore as on March 31, 2021), and a share of around 9% and 10% in system deposits and advances, respectively. Advances (net) and deposits were Rs 11,47,652 crore and Rs 13,45,829 crore, respectively, as on June 30, 2021 (Rs 11,32,837 crore and Rs 13,35,060 crore, respectively, as on March 31, 2021). Retail advances constituted 46% of total domestic advances as on June 30, 2021 (47% as on March 31, 2021). The bank is a market leader in the non-mortgage retail asset segments, such as commercial vehicles and car financing. It has also been expanding its geographical reach over the past few years; The bank has healthy capitalization, underpinned by sizeable net worth of Rs 2,12,488 crore as June 30, 2021 (Rs 2,03,721 crore as on March 31, 2021). The Tier-I capital adequacy ratio (CAR) and overall CAR (under Basel III) were 17.9% and 19.1%, respectively, as on June 30, 2021 (17.6% and 18.8%, respectively, as on March 31, 2021). The capital position was further strengthened, with the bank raising Rs 23,651 crore equity in fiscal 2019. Further, the bank raised USD 1 billion Additional tier I bonds (under Basel III) from overseas investors in August 2021. Net interest margin of the bank, at about 4.0-4.2%, has consistently remained above industry average. Given the bank’s higher proportion of retail segments and cost advantages that accrue from its resource profile, interest spread is likely to remain higher than industry levels.

2. National Bank for Agriculture and Rural Development: Incorporated in 1982 under an Act of the Indian Parliament, NABARD is governed by the NABARD Act, 1981. NABARD shares supervisory functions with RBI in respect of co-operative banks (other than urban and primary co-operative banks) and regional rural banks (RRBs). GOI and Reserve Bank of India own 99.60 percent and 0.40 percent, respectively, of NABARD's equity share capital. The bank is the apex refinancing agency providing short- and long-term refinance to state cooperative agricultural and rural development banks, state cooperative banks, RRBs, commercial banks, and other financial institutions approved by RBI to augment credit flow for production and investment purposes in the agriculture and rural sectors.

3. EXIM Bank: 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. 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 mangeable. 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.

5. HDFC Ltd: HDFC is the largest housing finance company and along with banks like SBI and ICICI Bank, dominates the housing finance market in with a significant market share in total mortgages outstanding. Capitalization levels are comfortable and remain so going forward. The funding mix of the company is comfortable with bonds and debentures accounting for more than 50% of the overall borrowings. and deposits around 1/3rd of the overall mix. HDFC has relationship with over 30 banks and has healthy access to funding from mutual funds and insurance companies. Earnings profile is very strong, supported by healthy spreads and very good asset quality maintained over the years.

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

Investment Objective:

To seek to provide liquidity and reasonable returns by investing primarily in a mix of debt and money market instruments such that the Macaulay duration of the portfolio is between 6 months to 12 months. However there can be no assurance or guarantee that the investment objective of the scheme would be achieved.

Fund Details

Fund Manager
Kapil Punjabi

Benchmark
CRISIL Low Duration Debt Index

AUM (as on 30.9.21)
253.32 Cr

Inception Date
17 October 2006

Minimum Investment

Lumpsum	SIP	Additional Purchase
Rs. 5,000	Rs. 500	Rs. 1,000

Exit Load
NIL

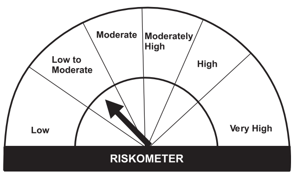
Average Maturity	0.59 years
Modified Duration	0.55 years
Macaulay Duration	0.57 years
Yield to Maturity [2]	4.16%

[2] YTM Based on invested Amount

^ 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

Riskometer

HSBC Low Duration Fund



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

Low Duration Fund - An open ended Low Duration Debt Scheme investing in instruments such that the Macaulay^^ duration of the portfolio is between 6 months to 12 months.

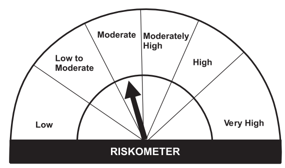
This product is suitable for investors who are seeking##:

- Liquidity over short term.
- Investment in debt and money market instruments such that the Macaulay^ duration of the portfolio is between 6 months to 12 months.

##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 Low Duration Debt Index



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

Disclaimer:

This document has been prepared by HSBC Asset Management (India) Private Limited (HSBC) for information purposes only and should not be construed as i) an offer or recommendation to buy or sell securities, commodities, currencies or other investments referred to herein; or ii) an offer to sell or a solicitation or an offer for purchase of any of the funds of HSBC Mutual Fund; or iii) an investment research or investment advice. It does not have regard to specific investment objectives, financial situation and the particular needs of any specific person who may receive this document. Investors should seek personal and independent advice regarding the appropriateness of investing in any of the funds, securities, other investment or investment strategies that may have been discussed or referred herein and should understand that the views regarding future prospects may or may not be realized. In no event shall HSBC Mutual Fund/HSBC Asset management (India) Private Limited and / or its affiliates or any of their directors, trustees, officers and employees be liable for any direct, indirect, special, incidental or consequential damages arising out of the use of information / opinion herein.

This document is intended only for those who access it from within India and approved for distribution in Indian jurisdiction only. Distribution of this document to anyone (including investors, prospective investors or distributors) who are located outside India or foreign nationals residing in India, is strictly prohibited. Neither this document nor the units of HSBC Mutual Fund have been registered under Securities law/Regulations in any foreign jurisdiction. The distribution of this document in certain jurisdictions may be unlawful or restricted or totally prohibited and accordingly, persons who come into possession of this document are required to inform themselves about, and to observe, any such restrictions. If any person chooses to access this document from a jurisdiction other than India, then such person do so at his/her own risk and HSBC and its group companies will not be liable for any breach of local law or regulation that such person commits as a result of doing so.

HSBC Mutual Fund, 9-11th Floor, NESCO - IT Park Bldg. 3, Nesco Complex, Western Express Highway, Goregaon East, Mumbai 400063. Maharashtra.
GST - 27AABCH0007N1ZS, Email: hsbcmf@camsonline.com | Website: www.assetmanagement.hsbc.co/in

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