Asset Management

HSBC Global Investment Funds – India Fixed Income

June 2023

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HSBC | Opening up a world of opportunity

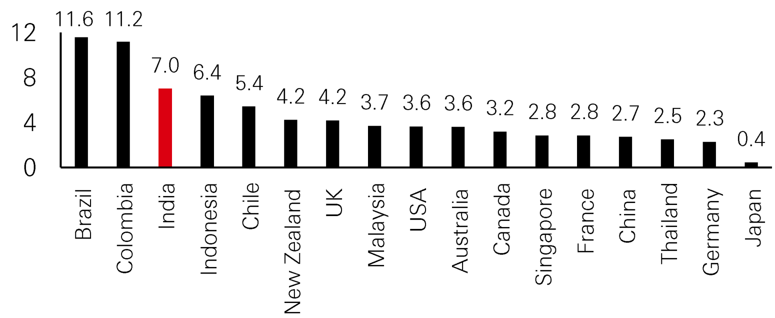
Why India fixed income now? Market opportunities

Attractive valuations

Indian bonds offer relatively attractive yields and can potentially provide much desired yield enhancement in a global bond portfolio. India bonds' relatively high yields indicate their potential for capital gain in the coming years should the bonds converge to lower levels of yield as India's economy develops.

India offers a yield pick up against most emerging and developed markets

10-year government bond yield[1] (%)



Potential for global index inclusion

The India bond market is not currently represented in major global or emerging market indices, despite being large and liquid with an investment grade credit rating. However, it is currently on the watch list to be potentially included in the FTSE Emerging Markets Government Bond Index (EMGBI) as well as JPMorgan Government Bond Index - Emerging Market (GBI EM), with the next review for the latter to be held this September 2023.

Characteristics of India bonds versus global and emerging markets

Data as of 31 May 2023 [2]

	India (Markit ALBI India Unhedged USD)	**Emerging markets** (FTSE EMGBI USD)	**Global markets** (FTSE World Govt Bond Index USD)
Annualised return (last 5 yrs)	4.1%	0.9%	-2.1%
Yield (%)	7.2%	4.3%	3.3%
Duration (years)	6.50	5.67	7.55

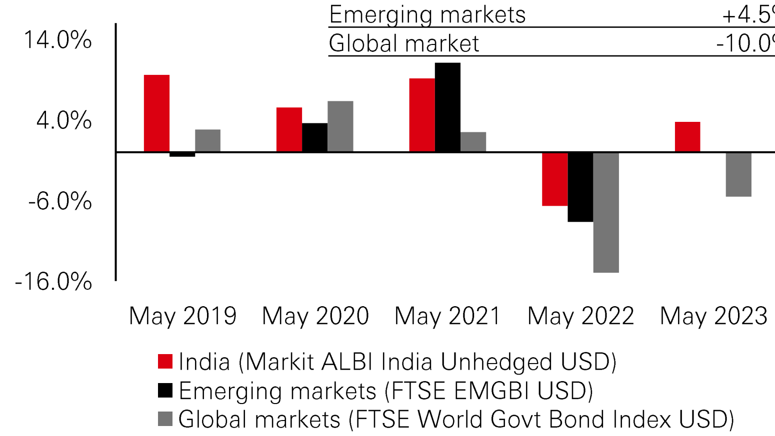
Diversification benefits

Adding India bonds to a global bond portfolio could potentially provide diversification benefits and improve returns. Over the last five years, India government bonds have meaningfully outperformed global and emerging market government bonds. Correlation between India bonds and global bonds has also been low at only 0.14,[1] strengthening the case for India bonds as a diversifier for global portfolios.

India bonds have outperformed global bonds over the last 5 years

12-month returns[2]

5-year cumulative return to May 2023	
India	+22.3%
Emerging markets	+4.5%
Global market	-10.0%



Note 1: Source: Bloomberg, 31 May 2023. Note 2: Source: Markit, FTSE, Bloomberg, 31 May 2023.
Source: HSBC Asset Management, Bloomberg, June 2023.

Investment involves risks. Past performance is not indicative of future performance. Any forecast, projection or target where provided is indicative only and is not guaranteed in any way. HSBC Asset Management Limited accepts no liability for any failure to meet such forecasts, projections or targets. For illustrative purposes only.

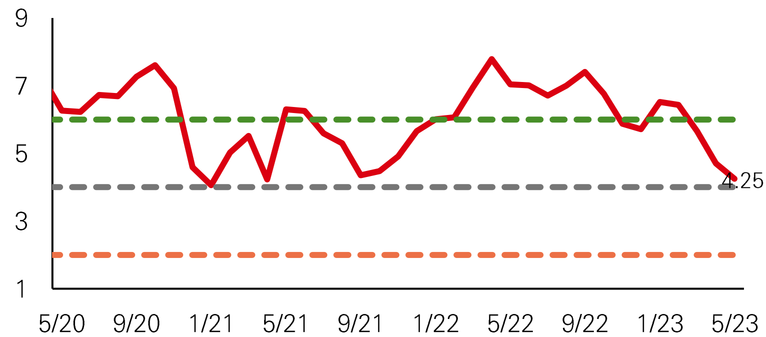
Why India fixed income now?
Macro tailwinds

Moderating inflation

Headline CPI inflation has been falling, with the latest figure for May 2023 standing at 4.25% year-on-year. We expect inflation to remain within the RBI's tolerance band, averaging ~5% in FY2024. The Reserve Bank of India (RBI) has also lowered its inflation forecasts in the last monetary policy meeting.

Inflation is expected to decline in FY2024

CPI year-on-year increase (%)[3]

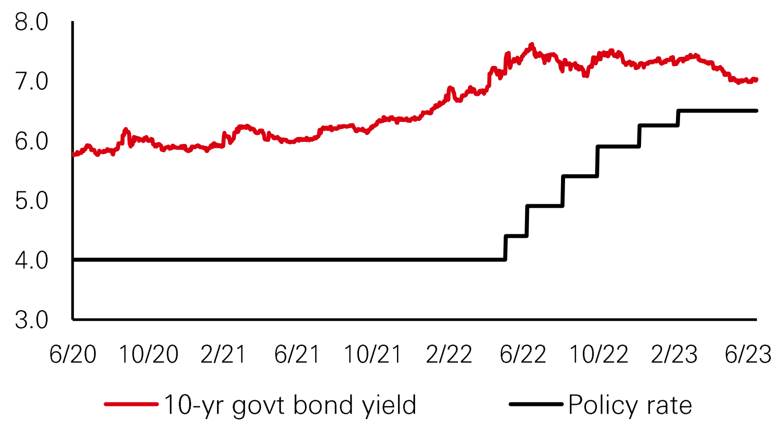


India interest rates may have peaked

The mature stage of the monetary tightening cycle is supportive for India bonds. A gradual disinflation trend, reduced balance of payment risks and a decent real interest rate buffer would allow India's central bank to focus more on domestic growth and stability considerations. The RBI kept the policy rate on hold for the second consecutive time in its June meeting and we believe there may be potential to ease policy later in the year.

Yields relative to policy rate

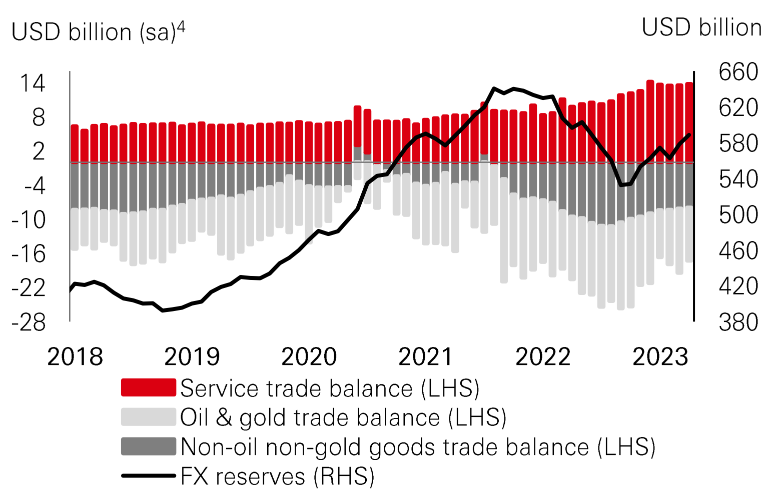
(%)[3]



Improving external resilience should support the INR

India's current account deficit is expected to narrow to about 2% of GDP or below in FY2024 / FY2025, helped by lower oil and commodity prices. A structural shift in the balance of payments dynamics, an uptrend in FDI and strong FX reserves have reduced India's external vulnerability. Further, India's focus on structural reforms improves the country's medium- to long-term prospects for FDI, which in turn reduces its dependence on portfolio capital flows to fund the current account deficit.

Strong services exports and narrower goods trade deficit



Note 3: Source: Bloomberg, RBI, June 2023. Note 4: sa refers to seasonally adjusted. Source: IIF, CEIC, Bloomberg, January 2023
Source: HSBC Asset Management, Bloomberg, June 2023.

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Investing in India Fixed Income with HSBC Asset Management

Strong combination of domestic and global presence

- Portfolio managers in Singapore and Hong Kong have significant experience both in India and Asia fixed income and are supported by HSBC Asset Management's global fixed income platform
- Supported by considerable fixed income investment resources domestically in India, which have been further strengthened by the acquisition of L&T Investment Management in 2022
- Investment process is built on solid proprietary research and knowledge of Asian and Indian bond markets

Strategy style is flexible, with a focus on quality

- The HSBC GIF India Fixed Income fund invests almost exclusively in what we consider to be investment grade equivalent bonds. Bonds which are not rated by global agencies are rigorously selected according to our credit research
- The fund aims to achieve a competitive yield, currently at 7.2%[5] by seeking the best opportunities in both the onshore and offshore Indian bond markets, with flexible allocation
- There are not many peer funds in the global market with a pure India fixed income strategy. The fund has one of the longest track records of any India fixed income UCITS fund[6]

Rigorous credit selection and risk management

- The fund avoided liquidity and default traps of some peers by maintaining strong risk management discipline throughout the life of the fund
- The fund take rates curve and credit positions to diversify active risk in the portfolio
- ESG is fully integrated into the credit research process of all bonds in the portfolio

Note 5: Based on yield to worst of HSBC GIF India Fixed Income fund, with source as HSBC Asset Management as of 31 May 2023. Note 6: HSBC GIF India Fixed Income fund was launched in August 2012 and HSBC Asset Management was one of the first global managers to launch a UCITS product in Indian fixed income.
Source: HSBC Asset Management, June 2023.
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HSBC GIF India Fixed Income
Fund details and characteristics

Fund details

Fund managers	Sanjay Shah, Fouad Mouadine, William Goh
Fund domicile	Luxembourg
Reference benchmark	Nil
Inception date	20 August 2012
Management fee[7]	Class AC: 1.10% p.a. Class AM2: 1.10% p.a. Class IC: 0.55% p.a.
Dealing frequency	Daily
Investment universe	• Investment grade, non-investment grade, and unrated INR bonds, including corporates and government • Investment grade, non-investment grade, and unrated bonds in other currencies hedged back to INR, including corporates and government
Fund size	USD 549 million

Portfolio characteristics as of 31 May 2023

Yield to worst (%)	7.17
Modified duration to worst (years)	4.63
Average credit rating[8]	BBB / BBB-

Allocation and duration/yield breakdown as of 31 May 2023

	% of fund[9]	Duration (years)	Yield (%)
INR sovereign bonds	59.32	5.35	6.99
INR corporate bonds	28.58	4.03	7.49
USD sovereign bonds	0.92	0.75	5.71
USD corporate bonds	9.07	3.62	5.53

Note 7: In addition to management fees, each share class incurs operating, administrative and servicing expenses, and may incur additional fees and expenses which are not disclosed in the above table. Note 8: Average credit rating uses "index rating" which is an average of the main vendors, presented in S&P format, the rating does not include securities NR or NA; the portfolio may hold securities which are unrated. Note 9: Portfolio contains 2.11% in cash.
Source: HSBC Asset Management as of May 2023.

The decision to invest in the fund should take account of all the characteristics or objectives as described in the prospectus. **Investment involves risks. Past performance is not indicative of future performance.** For illustrative purpose only.

Key risks

The value of investments and any income from them can go down as well as up and investors may not get back the amount originally invested. Further information on the potential risks can be found in the Key Investor Information Document (KID) and/or the Prospectus or Offering Memorandum.

Counterparty Risk: The possibility that the counterparty to a transaction may be unwilling or unable to meet its obligations.

Credit Risk: A bond or money market security could lose value if the issuer's financial health deteriorates.

Default Risk: The issuers of certain bonds could become unwilling or unable to make payments on their bonds.

Derivatives Risk: Derivatives can behave unexpectedly. The pricing and volatility of many derivatives may diverge from strictly reflecting the pricing or volatility of their underlying reference(s), instrument or asset.

Emerging Markets Risk: Emerging markets are less established, and often more volatile, than developed markets and involve higher risks, particularly market, liquidity and currency risks.

Exchange Rate Risk: Changes in currency exchange rates could reduce or increase investment gains or investment losses, in some cases significantly.

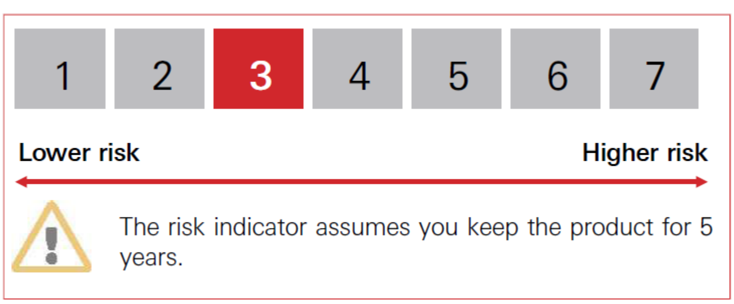
Interest Rate Risk: When interest rates rise, bond values generally fall. This risk is generally greater the longer the maturity of a bond investment and the higher its credit quality.

Investment Leverage Risk: Investment Leverage occurs when the economic exposure is greater than the amount invested, such as when derivatives are used. A Fund that employs leverage may experience greater gains and/or losses due to the amplification effect from a movement in the price of the reference source.

Liquidity Risk: is the risk that a Fund may encounter difficulties meeting its obligations in respect of financial liabilities that are settled by delivering cash or other financial assets, thereby compromising existing or remaining investors.

Operational Risk: Operational risks may subject the Fund to errors affecting transactions, valuation, accounting, and financial reporting, among other things.

Risk and Reward Profile



The SRI (Summary Risk Indicator) is an overall indicator of the product risk level resulting from the combination of market risk and credit risk. The scale varies from 1 (least risky) to 7 (most risky). Historical data may not be a reliable indication for the future. The rating is not guaranteed to remain unchanged and the categorisation may shift over time. The lowest rating does not mean a risk-free investment. Do not run any unnecessary risk. Read the Key Investor Information Document.

Important information

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