Asset Management

HSBC Global Investment Funds ("GIF") – India Fixed Income

September 2023

HSBC Opening up a world of opportunity

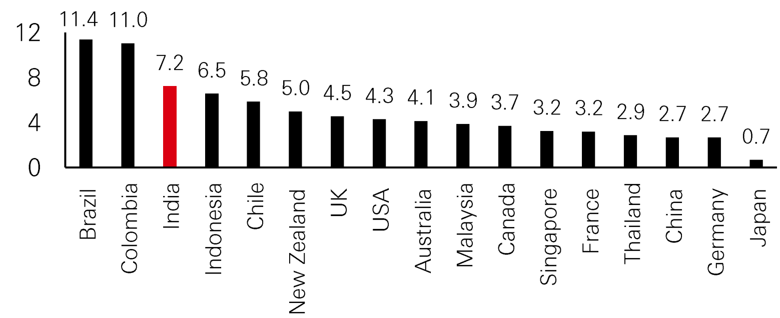
India fixed income
Market opportunities

Compelling valuations

Indian bonds offer relatively compelling yields and can potentially provide yield enhancement in a global bond portfolio. India government bonds' relatively high yields as compared to government bonds of most emerging and developed markets indicate their potential from a valuation-perspective in the coming years should the bonds converge to lower levels of yield as India's economy develops.

India 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).

Characteristics of India bonds versus global and emerging markets bonds

Data as of 31 August 2023[2]

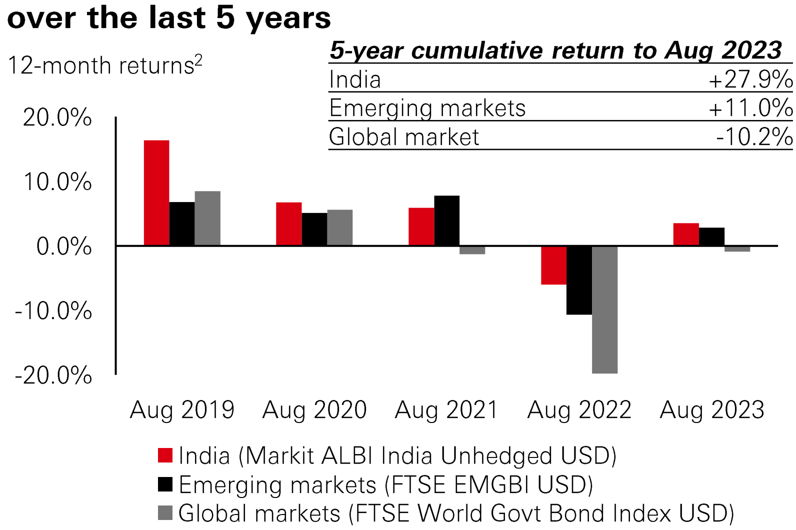
	India (Markit ALBI India Unhedged USD)	**Emerging markets** (FTSE EMGBI USD)	**Global markets** (FTSE World Govt Bond Index USD)
Annualised return (last 5 yrs)	5.0%	2.1%	-2.1%
Modified Duration (years)	6.5	5.6	7.3

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]



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

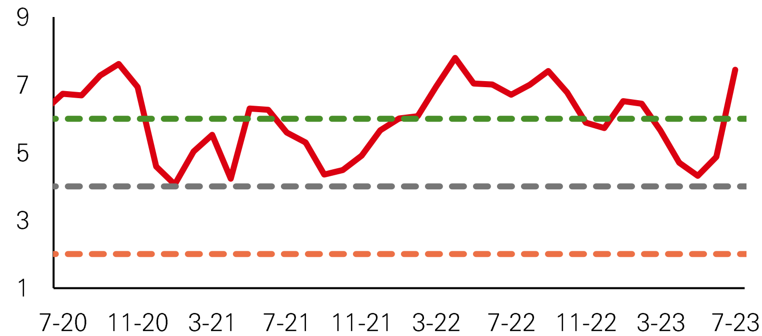
India fixed income
Macro tailwinds

Cooler inflation outlook

Though inflation in India has spiked in July, amongst other market factors, this was largely driven by vegetable prices and is likely to correct in the coming months as we see fresh market arrivals. Overall, we expect inflation to decline in FY2024 versus FY2023, and to fall within the Reserve Bank of India (RBI)'s tolerance band, averaging ~5% in FY2024.

India Consumer Price Index (CPI) YoY

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

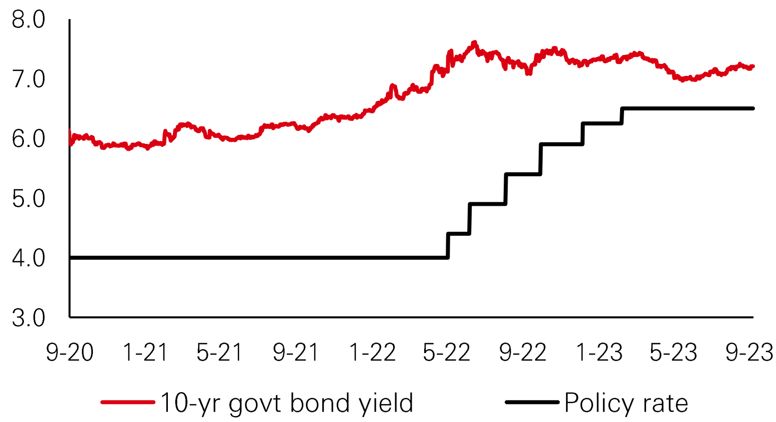


India interest rates may have peaked

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 a third consecutive time in its August meeting and we believe policy rates may stayed unchanged until Q1 of 2024.

Yields relative to policy rate

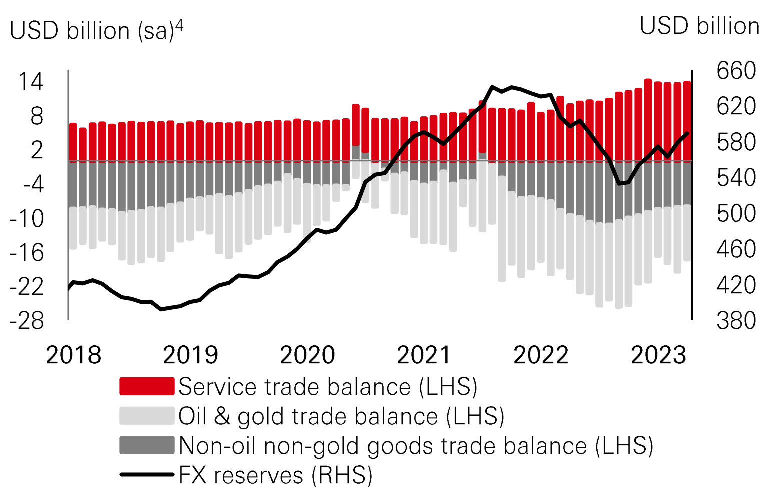
(%)[3]



Improving external resilience should support the Indian Rupee

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 Foreign Direct Investments (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, August 2023. Note 4: sa refers to seasonally adjusted. Source: IIF, CEIC, Bloomberg, January 2023
Source: HSBC Asset Management, Bloomberg, August 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 Sub-fund invests in a portfolio of Indian bonds and other similar fixed income securities.
- There are not many peer funds in the global market with a pure India fixed income strategy. The Sub-fund has one of the longest track records of any India fixed income UCITS fund[5]

Rigorous credit selection and risk management

- The Sub-fund avoided liquidity and default traps of some peers by maintaining strong risk management discipline throughout the life of the fund
- The Sub-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: 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, August 2023.
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HSBC GIF - India Fixed Income Sub-fund details and characteristics

Fund details

Fund domicile	Luxembourg
Reference benchmark	Nil
Inception date	20 August 2012
Management fee[6]	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 745 million as of 31 August 2023

Portfolio characteristics as of 31 July 2023

Modified duration to worst (years)	4.66
Average credit rating[7]	BBB / BBB-

Allocation and duration breakdown as of 31 July 2023

	% of fund[8]	Duration (years)
INR sovereign bonds	62.35	5.44
INR corporate bonds	23.62	4.02
USD sovereign bonds	0.71	0.58
USD corporate bonds	10.58	3.21

Note 6: 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 7: 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 8: Portfolio contains 2.75% in cash.
Source: HSBC Asset Management as of August 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.**
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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.

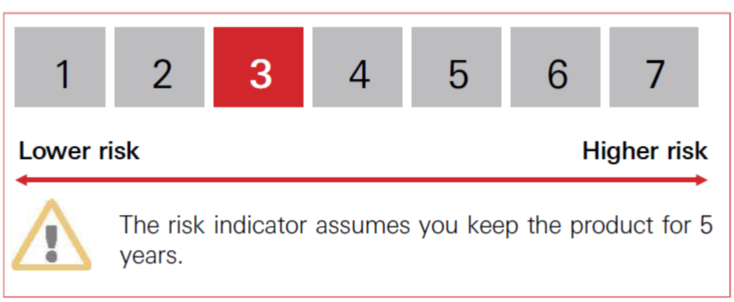
Interest Rate Risk: When interest rates rise, bond values generally fall. This risk is generally greater the longer the maturity of a bond investment and the higher its credit quality.

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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