

HDFC Long Duration Debt Fund

Intermission, not the End

JUNE 2025



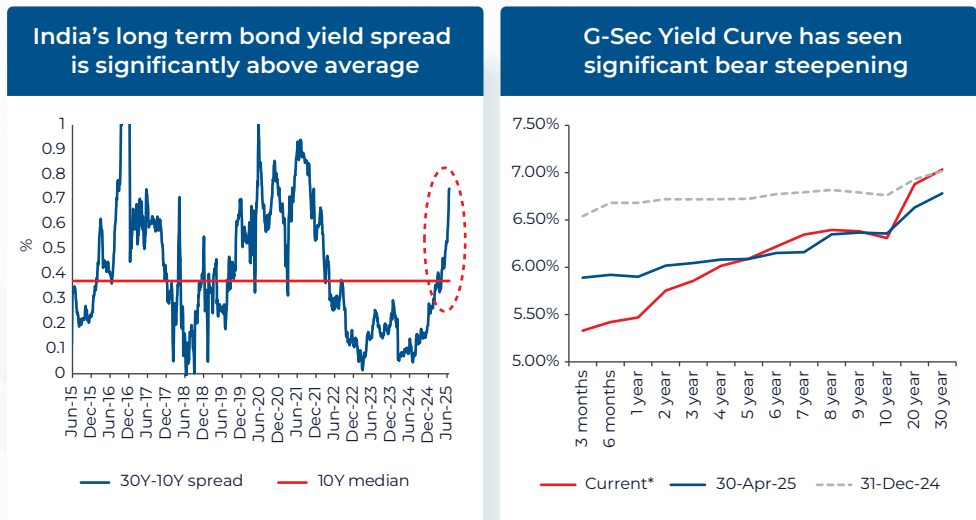
Mission: To be the wealth creator for every Indian

Vision: To be the most respected asset manager in the world

The 3-year dream run for the Indian fixed income markets was interrupted post the MPC announcement on 6th June 2025. While rate cuts were more than expected, the MPC simultaneously changed the stance to Neutral and highlighted that it is left with very limited space to support growth.

Change in stance was viewed negatively by the market participants and the Gsec curve saw bear steepening with yields at the long end of the curve, rising disproportionately. Further, muted demand from long-term buyers has resulted in a likely demand supply mismatch in the longer end segment of the curve.

Spreads between long end (30Y/40Y/50Y) and the 10Y Gsec have widened sharply, now trading near historical highs!



Source: Bloomberg. *Current refers to data as on 25-June-2025.

Is the time ripe to invest in longer duration funds?

Apart from factors such as ample liquidity and supportive monetary policy, yields at the long end are particularly influenced by variables such as – inflation and its expectations, fiscal balance and external sectors – all of which appear favourably placed in the current scenario.

- ✓ **Inflation under control, risk to downside higher:** For FY26, RBI expects inflation to not just be within the policy range, but 'to undershoot the target at the margin'. Expected good monsoons and crop sowing aid this outlook.
- ✓ **Low risk of fiscal slippage:** FY26BE estimate the fiscal deficit to narrow to less than 4.5%. We believe, that risks to fiscal not meeting target appear low in view of hefty dividend from RBI and room to reduce spending. Adherence to the fiscal roadmap is likely to bode well for long term yields.
- ✓ **Comfortable external sector:** India's Balance of payment is well placed in view of manageable current account and ample forex exchange reserve.
- ✓ **Monetary policy likely to remain supportive:** While change in stance was perceived hawkish and presumed to be end of rate cutting cycle by the market...
 - In a recent interview, the RBI governor explained that a neutral stance is 'neither hawkish nor dovish' and gives RBI flexibility to move either side. Further, he mentioned that if inflation turns out to be lower than expected, it could open-up 'policy space' for further rate cuts.
 - US FOMC decision and 'dot plot' indicate 2 more rate cuts expected in H2CY25. In view of the trade uncertainty, easing inflation and risk of growth surprising on downside, in our opinion, there is possibility of US FOMC reducing rates more than currently expected by the market.
 - Above indicates space for Indian monetary policy to cut rates may emerge in the later part of the year.
- ✓ **Surplus Liquidity:** RBI's actions over H1CY25, so far, have resulted in abundant surplus liquidity in the system. Further, durable liquidity infusion via gradual CRR cuts (in 4 tranches over Sep 2025 to Nov 2025), is likely to ensure liquidity remains comfortably in surplus through most part of this fiscal year and is likely to result in better rate transmission across entire curve. RBI's currently managing excess liquidity in the system via short term measures such as the VRRR.
- ✓ Moreover, in view of elevated spread between the 30Y and 10Y (~80bps) vs the long term (10Y) median of 37bps, we believe that most negatives are largely priced in and there is meaningful possibility of spreads compression. Further, there is potential for mismatch between long end Gsec D-S (demand and supply) to normalize in the second half of the fiscal year.

Conclusion:

Thus, current situation once again provides an opportunity to add exposure to the longer end of the curve, in our view. Investors with a relatively longer investment horizon could continue with their allocation to longer duration funds in line with individual risk appetite

About the fund

HDFC Long Duration Debt Fund ("the Scheme") is an open-ended debt scheme investing in instruments such that the Macaulay Duration of the portfolio is greater than 7 years. A Relatively High Interest Rate Risk and Relatively Low Credit Risk.

Current investment strategy

The current investment strategy is to predominantly invest in long dated government securities of 25+ years maturity (papers maturing in 2050 and beyond) with a roll-down approach (more than ~80% of portfolio net assets), while retaining the flexibility to invest (upto ~20% of portfolio net assets) in the other segments of yield curve which may offer relatively better value.

Fund quants as of as of 15th June 2025:

Macaulay Duration	12.35 years
Modified Duration	11.93 years
Average Maturity	30.05 years
Annualised portfolio YTM¥‡	7.13%\$.
Portfolio composition	
G-Sec investments	96.91% of Net Assets
Cash, Cash Equivalents and Net Current Assets	3.09%

\$Actual returns from investment may not be similar to YTM

¥ Semi-annual YTM has been annualised

‡ Calculated on amount invested in debt securities (including accrued interest), deployment of funds in TREPS and Reverse Repo and net receivable / payable

MPC	Monetary Policy Committee
CRR	Cash reserve ratio
VRRR	Variable Rate Reverse Repo

Disclaimer:

The views expressed are based on internal data, publicly available information and other sources believed to be reliable. The statements contained herein are based on our current views and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. The current investment strategies are subject to change depending on market conditions. Securities/Stocks/Sectors referred are illustrative and not recommended by HDFC Mutual Fund ("the Fund")/ HDFC AMC. The Schemes of the Fund may or may not have any present or future positions in these sectors. It should not be construed as an investment advice or a research report or a recommendation by the Fund/HDFC AMC to buy or sell the stock or any other security covered under the respective sector/s. The Fund/HDFCAMC is not guaranteeing any returns on investments made in the Scheme(s). Past performance may or may not be sustained in future and is not a guarantee of any future returns. HDFC Asset Management Company Limited ("HDFC AMC") does not warrant the completeness or accuracy of the information herein. Neither HDFC AMC, nor any person connected with it, accepts any liability arising from the use of this material. The recipient(s) should before taking any decision, should make their own investigation and seek appropriate professional advice.

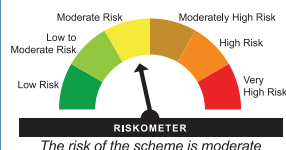
HDFC Long Duration Debt Fund is suitable for investors who are seeking*:

- Income over the long term
- To generate income /capital appreciation through investments in debt and money market instruments

*Investors should consult their financial advisers, if in doubt about whether the product is suitable for them.

For latest riskometers, investors may refer to the Monthly Portfolios disclosed on the website of the Fund viz. www.hdfcfund.com

RISKOMETER#



Potential Risk Class (Maximum risk the Scheme can take)

Credit Risk →	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
Interest Rate Risk ↓			
Relatively Low (Class I)			
Moderate (Class II)			
Relatively High (Class III)	A-III		
A-III - A Scheme with Relatively High Interest Rate Risk and Relatively Low Credit Risk.			

Date of release: 29th June 2025

**MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS,
READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.**