

ABF Hong Kong Bond Index Fund

31 Oct 2018

Risk Disclosure

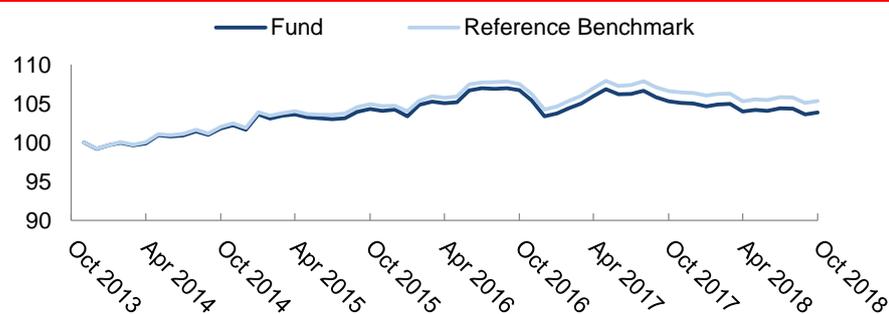
Investments involve risks. Investors are advised to consider their own investment objectives and circumstances in determining the suitability of an investment in the Fund. An investment in the Fund may not be suitable for everyone. If you are in any doubt about the contents of this document, you should consult your stockbroker, bank manager, solicitor, accountant or other financial adviser. Investors should note:

- The Fund is an exchange traded bond fund. The Fund's market price on the stock exchange may be different from its net asset value per unit.
- The listing of the Fund on the stock exchange in Hong Kong does not guarantee a liquid market and the Fund may be delisted.
- The Fund invests primarily in Hong Kong dollar government and quasi-government bonds with an aim to track the performance of the underlying index.
- The Fund may pay dividends out of capital or pay dividends gross of expenses. Dividend is not guaranteed and will result in capital erosion and reduction in net asset value.
- Investing in the Fund involves substantial credit, counterparty, market, volatility and liquidity risks. In the case of turbulent market situation, investors may suffer substantial loss.
- Investors should not invest in the Fund solely based on the information provided in this document and should read the Prospectus of the Fund for details.
- Unit trusts are NOT equivalent to time deposits. Investors should not invest in the Fund solely based on the information provided in this document. The Fund differs from a typical trust and investors should read the offering document of the Fund for details.

Fund Objective and Strategy

This Fund seeks to provide investment results that correspond closely to the total return of the Markit iBoxx ABF Hong Kong Index, before fees and expenses.

Performance (%)



Performance (%)	YTD	1M	3M	1Y	3Y ¹	5Y ¹
Fund	-1.12	0.22	-0.52	-1.37	-0.43	3.46
Reference Benchmark	-0.95	0.22	-0.47	-1.17	0.41	5.05

Calendar Year Performance (%) ²	2013	2014	2015	2016	2017
Fund	-3.51	2.48	2.54	-0.83	1.62
Reference Benchmark	-3.02	2.70	2.79	-0.47	2.03

Past performance is not an indicator of future returns. The figures are calculated in the share class base currency, NAV to NAV basis with dividend reinvested, net of fees. If investment performance is not denominated in HKD or USD, HKD or USD based investors are exposed to exchange rate fluctuations.

Source: HSBC Global Asset Management, data as at 31 October 2018

Fund Details

UCITS V Compliant	No
Distribution Type	Distributing
Distribution Frequency	Semi-annually
Dealing Frequency	Daily
Max. Initial Charge	0.00%
Management Fee	First HKD 1,560 million 0.15%, thereafter 0.12%
Base Currency	HKD
Domicile	Hong Kong
ISIN	HK2819031405
Inception Date	17 Jun 2005
NAV per Share	HKD 95.83
Fund Size	HKD 2,735,695,357
Bloomberg Ticker	2819 HK
Reference Benchmark	Markit iBoxx ABF Hong Kong TR HKD
Manager	Ming Leap Steven Wong

¹Result is cumulative when calculation period is over one year.

²The calendar year return of the first year is calculated between share class inception date and calendar year end of first year if the share class has less than 5-year history.

Fund change that may have material impact on performance: 11 Dec 2017 - charges of creating units increased. 29 Jan 2018 – dividend distribution policy changed. Performance is calculated according to net asset value per unit. The Fund's trading price on the stock exchange may be different from its net asset value per unit.

3-Year Risk Measures	Fund	Reference Benchmark
Volatility	2.32%	2.27%
Sharpe Ratio	-0.50	-0.38
Tracking Error	0.20%	-
Information Ratio	-1.43	-

5-Year Risk Measures	Fund	Reference Benchmark
Volatility	2.24%	2.21%
Sharpe Ratio	-0.03	0.11
Tracking Error	0.17%	-
Information Ratio	-1.83	-

Characteristics	Fund	Reference Benchmark	Relative
Number of Holdings ex Cash	56	73	-
Average Coupon	1.98	1.95	0.03
Effective Duration ³	4.00	4.00	0.00
Portfolio Yield	2.46	2.44	0.03
Average Yield to Maturity	2.46	2.44	0.03

Characteristics	Fund	Reference Benchmark	Relative
Current Yield (Gross)	2.03	2.00	0.03
Average Credit Quality ⁴	AA+/AA	AA+/AA	-
Maturity Average	4.33	4.48	-0.15
Number of Issuers	11	17	-

Credit Quality Rating Allocation (%)	Fund	Reference Benchmark	Relative
AAA	-	2.00	-2.00
AA	97.51	91.85	5.66
A	2.22	1.23	0.98
NR	-	4.92	-4.92
Cash	0.28	-	0.28

Sector Allocation (%)	Fund	Reference Benchmark	Relative
Treasuries	71.15	77.57	-6.41
Industrial	8.66	5.41	3.25
Financial Institutions	7.97	5.81	2.16
Agencies	5.02	2.20	2.82
Supranational	4.20	7.50	-3.30
Sovereign	2.73	1.51	1.22
Cash	0.28	-	0.28

Sorted from highest to lowest rating. Cash is not included in any rating.

Sorted from largest to smallest per market values of weight.

Maturity Breakdown (Effective Duration)	Fund	Reference Benchmark	Relative
< 1 year	0.03	-	0.03
1-2 years	0.30	0.33	-0.03
2-3 years	0.52	0.64	-0.13
3-4 years	0.33	0.25	0.09
4-5 years	0.44	0.48	-0.04
5-10 years	1.40	1.32	0.08
> 10 years	0.99	0.98	0.01
Total	4.00	4.00	0.00

Sorted from shortest to longest per the length of maturity.

³Effective Duration, excludes interest rate futures, bond futures and excess return from interest rate swaps.

⁴Average credit rating uses 'Index rating' which is an average of the vendors: S&P, Fitch, Moody's. The average fund and benchmark rating does not include securities rated NR or NA.

Monthly Performance Commentary

Market Review

US treasury yield curve shifted up in October, with the short- and long-end moved up more while the belly remained fairly stable. Greatest yield change was found at the 30 year maturity, which moved up by 19bps. During the month, the US treasury market was volatile although ended the month only little changed from last month. US treasury yields rose initially on solid economic data only to fall in the later part of the month as concerns over slower global growth and the US equity market sell-off caused investors to seek for safety from US treasuries.

Contrary to the US treasury curve, Hong Kong sovereign bond yields broadly moved down, with the short-end witnessed larger movements. In particular, yields on 3 month government securities moved down by 56bps. The rest of the curve moved down with movements ranging from 2–8bps.

The Hong Kong dollar swap curve broadly shifted up in October, except the short-end which moved down. The 3-month swap rate moved down by 18bps, while the rest of the curve moved up moderately with movements ranging from 3-8bps.

Economic Review

Hong Kong's trade growth slowed in September, with exports and imports grew at a slower pace compared to August. The trade deficit has also narrowed. The slower growth in September was due in part to the Sino US trade tensions and in part to trade disruption from Typhoon Mangkut. Escalating trade frictions between the US and China remains a key downside risk to Hong Kong's trade sector.

Hong Kong's retail sales growth slowed in September in both value and volume terms. Just as the tight labor market and wealth effects from increased property prices provided support to domestic consumption before, the more recent stock market volatility and the slowdown in the housing market have weighed on consumer confidence and retail sales.

Inflation in the city accelerated in September, which was mainly due to special factors including the upward adjustment in public housing rentals and increase in school fees as the effects of the government subsidy schemes introduced a year earlier dissipated. The inflation rate may be subject to further upward pressure in the rest of the year, as local costs have increased along with the sustained economic expansion, and as the earlier rises in fresh-letting residential rentals continue to feed through.

Economic/Market Outlook

Hong Kong interbank money market rates have enjoyed a relatively stable few weeks in October, thanks partly to the stabilized USDHKD exchange rates and the adequate liquidity in the banking system after the tightness in September due to IPO and holiday effects. Amid the recent volatility in the global stock markets, we expect there may be potential delays in the equity IPO pipeline over the near term. This should help stabilise the interbank rates and the short-end of the curve as IPOs tend to tighten liquidity by locking up sizeable amount of cash during the subscription period.

The USDHKD exchange rates fell abruptly (Hong Kong dollar strengthened) in late September on temporary liquidity tightness and Hong Kong banks raising the prime lending rate. Although the exchange rates have stabilized in more recent weeks, the Hong Kong dollar may weaken again because there is excess liquidity in Hong Kong and the US Fed is expected to raise rates further. In our opinion, this is a normal consequence of interest rate arbitrage and should not be interpreted as investors being pessimistic on the Hong Kong dollar. However, if the weakness in Hong Kong dollar persists, the Hong Kong Monetary Authority may defend the Hong Kong dollar again by withdrawing liquidity from the banking system, and in turn, this will place more upward pressure on the yield curve.

With the prospect of further rise in US yields, we may see further upward pressure on Hong Kong money market rates and bond rates. However, we only expect the pace of increase in the current cycle to be gradual given the banking system remains abundant with liquidity.

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Terms of Glossary

Convertible bond, is a type of bond that the holder can convert into a specified number of shares of common stock in the issuing company or cash of equal value.

Corporate bond, is bond issued by a company in order to raise financing.

Coupon, the annual interest rate paid on a bond, expressed as a percentage of the face value.

Credit quality, one of the principal criteria for judging the investment quality of a bond or bond mutual fund.

Developed markets, countries that are most developed in terms of its economy and capital markets.

Duration, a measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates.

Emerging markets (EM), nations' economies in the process of fast economic growth. Investments in emerging markets are generally considered to be with higher risk.

Government bond or Gilt, a loan to a national government in return for regular payments (known as the coupon) and a promise that the original investment (principal) is paid back at a specified date. Gilts are loans to the UK government.

High yield bond, is fixed income security with a low credit rating from a recognised credit rating agency. They are considered to be at higher risk of default, but have the potential for higher rewards.

Information ratio, is a ratio of portfolio returns above/under the returns of a benchmark to the volatility of those returns.

Investment grade bond, is considered investment grade or IG if its credit rating is BBB- or higher by Standard & Poor's or Baa3 or higher by Moody's.

Maturity, the period of time for which a financial instrument remains outstanding.

Effective Duration, is a duration value based on the probability of early redemption call by the bond issuer.

Sharpe ratio, a measure for calculating risk-adjusted return, and this ratio has become the industry standard for such calculations.

Tracking error, a measure of how closely a portfolio follows the index to which it is benchmarked.

Volatility, a measure of how much a fund's price goes up or down as a percentage of its average performance.

Yield to maturity, the total return anticipated on a bond if the bond is held until the end of its lifetime, excluding strategic currency hedges for Portfolio/Benchmark calculations. Number is shown in percentage.

Portfolio Yield, the lowest potential yield that can be received on a bond without the issuer actually defaulting, excluding strategic currency hedges for Portfolio/Benchmark calculations. Number is shown in percentage.

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Supplement Information Sheet

31 Oct 2018

	Base Currency	Distribution Frequency	Dividend ex-date	Dividend Amount	Annualised Yield (Distribution is not guaranteed and may be paid out of capital)
Fund	HKD	Semi-annually	30 Jul 2018	0.600000	1.25%
Fund	HKD	Semi-annually	30 Jan 2018	0.570000	1.17%

The above table cites the last dividend paid within the last 12 months only.

Dividend is not guaranteed and may be paid out of capital, which will result in capital erosion and reduction in net asset value. A positive distribution yield does not imply a positive return. Past payout yields and payments do not represent future payout yields and payments. Historical payments may be comprised of both distributed income and capital.

The calculation method of annualised yield: $(\text{dividend value} / \text{NAV per share or unit as of ex-dividend date}) \times n$, n depends on the distributing frequency. Annually distribution is 1; semi-annually distribution is 2; quarterly distribution is 4; monthly distribution is 12.

The annualised dividend yield is calculated based on the dividend distribution on the relevant date with dividend reinvested, and may be higher or lower than the actual annual dividend yield.