

ABF Hong Kong Bond Index Fund

31 Dec 2018

Risk Disclosure

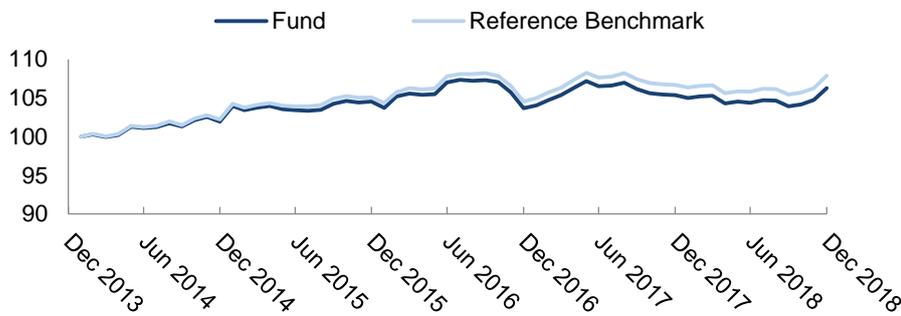
Investments involve risks. Investors are advised to consider their own investment objectives and circumstances in determining the suitability of an investment in the Fund. An investment in the Fund may not be suitable for everyone. If you are in any doubt about the contents of this document, you should 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	0.88	1.46	2.25	0.88	1.66	6.83
Reference Benchmark	1.14	1.53	2.33	1.14	2.70	8.41

Calendar Year Performance (%) ²	2014	2015	2016	2017	2018
Fund	2.48	2.54	-0.83	1.62	0.88
Reference Benchmark	2.70	2.79	-0.47	2.03	1.14

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 December 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 97.78
Fund Size	HKD 2,659,126,675
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: 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	2.48%	2.44%
Sharpe Ratio	-0.22	-0.09
Tracking Error	0.19%	-
Information Ratio	-1.83	-

5-Year Risk Measures	Fund	Reference Benchmark
Volatility	2.29%	2.26%
Sharpe Ratio	0.22	0.36
Tracking Error	0.17%	-
Information Ratio	-1.79	-

Characteristics	Fund	Reference Benchmark	Relative
Number of Holdings ex Cash	54	72	-
Average Coupon	2.00	1.95	0.06
Effective Duration ³	3.98	3.98	0.00
Portfolio Yield	2.10	2.07	0.03
Average Yield to Maturity	2.10	2.07	0.03

Characteristics	Fund	Reference Benchmark	Relative
Current Yield (Gross)	2.02	1.96	0.05
Average Credit Quality ⁴	AA+/AA	AA+/AA	-
Maturity Average	4.30	4.45	-0.15
Number of Issuers	11	17	-

Credit Quality Rating Allocation (%)	Fund	Reference Benchmark	Relative
AAA	-	1.97	-1.97
AA	97.59	90.90	6.69
A	2.35	1.24	1.11
NR	-	5.89	-5.89
Cash	0.06	-	0.06

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

Sector Allocation (%)	Fund	Reference Benchmark	Relative
Treasuries	70.04	76.34	-6.30
Industrial	9.08	5.55	3.53
Financial Institutions	8.37	6.83	1.54
Agencies	5.10	2.21	2.90
Supranational	4.41	7.53	-3.12
Sovereign	2.93	1.54	1.39
Cash	0.06	-	0.06

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	0.37	0.43	-0.07
2-3 years	0.40	0.45	-0.05
3-4 years	0.25	0.24	0.02
4-5 years	0.49	0.55	-0.05
5-10 years	1.38	1.27	0.11
> 10 years	1.05	1.03	0.02
Total	3.98	3.98	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 yields broadly fell in December, as risk off sentiment grew amidst concerns over a government shutdown in US and weakening global growth. The greatest shift took place in the long-end, reflecting the change in investors' expectation for a slower growth and lower inflation outlook in the longer term. Despite the output cut from OPEC, oil prices continued to tumble in December on the back of still elevated supply but reduced demand. Short-end yields fell by a lesser extent after the Fed raised interest rate by 25bps in December. At the same time, the Fed admitted that the rate had reached the low-end of the neutral rate range, indicating a possibly more dovish stance into 2019.
- After the Fed hiked rates in December, HKMA also raised its base rate by 25bps to 2.75% in December to maintain the rate differential and currency peg. However, closely tracking the US treasury curve, the Hong Kong sovereign curve shifted significantly downward. Bonds with 5-year maturity fell the most by 38bps.
- The HKD swap curve also shifted downward and flattened, with yield changes ranging from -22bps to -44bps.

Economic Review

- Global trade data slowed materially in November, as front-loading effect faded and impact from US-China trade tensions began to surface. As a trade-oriented country, Hong Kong saw exports and imports figures plunging in November. While the lagged effect can last for a prolonged period, increased use of Hong Kong from China as a re-export location could alleviate the impact. Moving into 2019, business remain cautious ahead of the negotiations between China and the US. PMI picked up slightly, but remained in contraction territory.
- Producer prices for the third quarter came in much weaker than the previous quarter, giving little pressure on downstream prices. Consumer prices remained tepid over the year and edged down in November, dragged by decline in apparel and durable goods prices. In sum, a steady CPI trend is expected to persist in the coming months, although there may be some inflationary pressure from the fresh-letting residential rentals.
- Moderating growth in China and prolonged US-China trade tensions are headwinds to Hong Kong economic growth. The downbeat equity market since early 2018 and softening property prices have dampened investment sentiment and domestic consumption. Against such backdrop, retail sales continued to slide. On the other hand, consumption should see some support, as the labour market remains tight and tourist arrivals to Hong Kong have spiked in November.

Economic/Market Outlook

- Hong Kong interbank borrowing costs rose in December as banks hoarded cash for year-end checks. Money market rates also rose in anticipation of the US FOMC meeting which was largely expected to announce a policy rate hike. Due to the peg of the Hong Kong and the US dollar, Hong Kong effectively imports the US's monetary policy. As such, the HKMA followed the decision of the US Fed and raised its benchmark rate by 25bps in December. Meanwhile, the tighter liquidity in the city has also driven the Hong Kong dollar (vs the US dollar) stronger. Going forward, we expect money market rates to stabilize and taper off from the levels in December as the seasonal effect begins to fade.
- We believe the Hong Kong sovereign bond curve will remain correlated to US treasury yields given the city's currency peg with the US. The December US FOMC meeting minutes suggested that the US Fed has become less inclined to keep raising rates than their previous statements suggested. At the same time, given the impact of already implemented interest rate hikes in the US, trade ructions as well as weakening influence of tax cuts, the US economy is already facing headwinds. Other global risk also remains acute with weakening China economy, Eurozone budget tensions, Brexit and low levels of inflation and falling oil prices. We believe the room for the US Fed to continue to raise rates has become more constrained.

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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 Dec 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.