

# ABF Hong Kong Bond Index Fund

30 Nov 2018

## Risk Disclosure

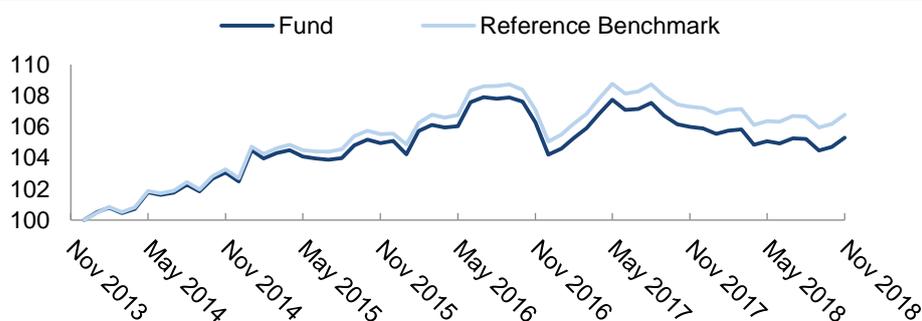
Investments involve risks. Investors are advised to consider their own investment objectives and circumstances in determining the suitability of an investment in the Fund. An investment in the Fund may not be suitable for everyone. If you are in any doubt about the contents of this document, you should 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 <sup>1</sup>	5Y <sup>1</sup>
Fund	-0.57	0.56	0.08	-0.66	0.32	4.42
Reference Benchmark	-0.39	0.56	0.12	-0.48	1.18	5.93

Calendar Year Performance (%) <sup>2</sup>	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 30 November 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 96.37
Fund Size	HKD 2,683,535,815
Bloomberg Ticker	2819 HK
Reference Benchmark	Markit iBoxx ABF Hong Kong TR HKD
Manager	Ming Leap Steven Wong

<sup>1</sup>Result is cumulative when calculation period is over one year.

<sup>2</sup>The 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.

3-Year Risk Measures	Fund	Reference Benchmark
Volatility	2.34%	2.29%
Sharpe Ratio	-0.40	-0.29
Tracking Error	0.20%	-
Information Ratio	-1.45	-

5-Year Risk Measures	Fund	Reference Benchmark
Volatility	2.25%	2.21%
Sharpe Ratio	0.04	0.17
Tracking Error	0.17%	-
Information Ratio	-1.75	-

Characteristics	Fund	Reference Benchmark	Relative
Number of Holdings ex Cash	55	73	-
Average Coupon	2.01	1.95	0.06
Effective Duration <sup>3</sup>	3.96	3.95	0.00
Portfolio Yield	2.41	2.39	0.01
Average Yield to Maturity	2.41	2.39	0.01

Characteristics	Fund	Reference Benchmark	Relative
Current Yield (Gross)	2.04	1.99	0.06
Average Credit Quality <sup>4</sup>	AA+/AA	AA+/AA	-
Maturity Average	4.28	4.43	-0.15
Number of Issuers	11	17	-

Credit Quality Rating Allocation (%)	Fund	Reference Benchmark	Relative
AAA	-	1.96	-1.96
AA	97.52	91.01	6.51
A	2.31	1.21	1.10
NR	-	5.83	-5.83
Cash	0.18	-	0.18

Sector Allocation (%)	Fund	Reference Benchmark	Relative
Treasuries	70.17	76.89	-6.72
Industrial	9.01	5.36	3.65
Financial Institutions	8.28	6.72	1.56
Agencies	5.15	2.17	2.99
Supranational	4.37	7.37	-3.01
Sovereign	2.84	1.49	1.35
Cash	0.18	-	0.18

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	0.38	0.46	-0.08
2-3 years	0.41	0.46	-0.04
3-4 years	0.29	0.23	0.05
4-5 years	0.44	0.54	-0.10
5-10 years	1.38	1.28	0.10
> 10 years	1.02	0.98	0.04
<b>Total</b>	<b>3.96</b>	<b>3.95</b>	<b>0.00</b>

Sorted from shortest to longest per the length of maturity.

<sup>3</sup>Effective Duration, excludes interest rate futures, bond futures and excess return from interest rate swaps.

<sup>4</sup>Average 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.

Source: HSBC Global Asset Management, data as at 30 November 2018

## Monthly Performance Commentary

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### Market Review

The US treasury yield curve flattened in November, with almost the entire curve shifted lower except for the tenors less than 1 year. Greatest yield changes were found at the 5 and 10-year maturities, which moved down by 16bps. In November, US treasury yields moved up at the beginning of the month, supported by strong employment data. However, yields began to trend lower later in the month as risk factors such as volatility in the US equity markets, moderating China economic growth, Sino-US trade tension, Brexit, falling oil prices and Italy budget deficits continued to weigh on risk appetite and boosted demand for US treasuries. While the US congressional election and the US FOMC meeting in November did not have much impact on the bond markets, the US Federal Reserve Chairman's comments about the US economy had yet to feel the full impact of the previous hikes caused yields to fall. The Hong Kong sovereign bond curve followed similar movements as the US treasury curve, having shifted down for tenors from 3-year onwards with movements ranged from 8-13bps. On the other hand, the shorter tenors broadly moved up with the yield on 3-month sovereign issues rose the most (18bps). Closely tracking the Hong Kong sovereign bond curve, Hong Kong dollar swap rates also shifted up along the curve with movements ranged from 7 – 23bps.

### Economic Review

Hong Kong's October trade data improved from September's numbers. Export growth trend could only be seen in China and Hong Kong as export growth in other Asian economies has actually moderated in 2018. This is reflective of the fact that the majority of Hong Kong's exports are transshipments which go through the ports of Hong Kong into China. China's exports (especially exports to the US) have remained robust despite the on-going trade negotiations. This can be attributed to both strong US domestic demand as well front-loading of exports to the US before the tariff rate potentially be lifted in January 2019. October CPI inflation rose in line with market expectations. Food, housing, and service costs led inflation over the past two months. Food prices may continue to pick up and the prolonged housing price surge since 2Q16 is also likely to continue feeding through to the CPI housing component in the next few months. The city's total employment growth slowed in October, mainly driven by the weakness in retail employment, which tends to exhibit higher volatility given many jobs in this sector are part-time or contract work. The slowdown in employment growth in the retail sector was consistent with the weakened tourist arrivals and retail sales since the second quarter this year.

### Economic/Market Outlook

Hong Kong interbank money market rates have remained relatively stable in November with the seasonal effect in 3Q gradually subsided and the USDHKD exchange rates remained stable. However, we may see the interbank money market rates trending higher again towards the end of the year when liquidity conditions typically tighten and banks tend to hold more cash for year-end checks. We believe liquidity will remain adequate even as we approach the year end. We take comfort from the comments made by the Hong Kong Monetary Authority (HKMA) Chief Executive Norman Chan earlier this year that the central bank would stand ready to calibrate the issuance of exchange fund bills (EFBs). This suggested that the HKMA would let EFBs to mature without roll-over issuance in order to provide liquidity if interbank conditions tighten. This commitment should provide confidence that Hong Kong dollar liquidity will remain adequate and help stabilize yields in the market. Despite expectations of higher money market rates towards the end of the year, Hong Kong bond yields have actually trended lower in recent weeks, closely following the movements of the US treasury yields. Although there may be further hikes from the US, we believe these hikes have largely been priced in the current valuations. As such, we do not foresee further upwards moves in US rates to have the same negative impact on the US and Hong Kong bond markets as they did earlier this year. We may even see bond yields trending down when the market begins to price in the end of the US hiking cycle.

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## Terms of Glossary

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**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.

# ABF Hong Kong Bond Index Fund

Supplement Information Sheet

30 Nov 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: (dividend value / NAV per share or unit as of ex-dividend date) x 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.