

Important information:

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 Fund invests primarily in Hong Kong dollar government and quasi-government bonds with an aim to track the performance of the underlying index.
- 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 and should read the offering document of the Fund for details. This document does not constitute an offering document.

ABF Hong Kong Bond Index Fund

June 2017

Fund objective

The Fund seeks to provide investment results that correspond closely to the total return of the Markit iBoxx ABF Hong Kong Index¹, before fees and expenses.

Manager's review and comments

Market Review

- ▶ US treasury yield curve flattened in May with yields lower for maturities equal to and greater than 3 years. Initially, US treasury yields increased amid strong April labour data and expectations of another US interest rate in June. However, they fell broadly later in the month as lingering political uncertainties in the US may further affect the Trump administration's ability to work on its pro-growth policies.
- ▶ As liquidity has remained overall sufficient in the banking system, the Hong Kong sovereign yields declined by 10-21 bps for maturities equal to and greater than 1 year.
- ▶ Largely tracking the HK dollar sovereign yields, the HK dollar swap yields ended lower across the curve with the changes in yields ranging from -19 to -24 bps for maturities equal to and greater than 1 year.

Economic Review

- ▶ As largely expected, the US Federal Reserve kept the federal funds rate unchanged at its May meeting. The minutes of the meeting indicated that "most participants" thought it should "soon be appropriate" to raise rates again and also that "nearly all" on the Committee looked for balance sheet normalization to begin this year.
- ▶ With improving global demand and new product launches, the April Hong Kong Nikkei PMI reached its highest levels since June 2014, rising to 51.1 in April from 49.9 in March. Separately, Hong Kong retail sales resumed moderate year-on-year growth in March, after previous extended period of decline.
- ▶ Consumer price inflation pressure remained modest in April, with the larger year-on-year rate of change mainly attributed to low base effects. Meanwhile, the underlying inflation also rose in April as the difference in timing of the Easter holidays led to a year-on-year increase in the charges for package tours.

Economic/Market Outlook

- ▶ The US treasury yields continue to trend lower and remains the key driver of performance so far this year. Heightened awareness of geopolitical concerns as well as reduced optimism on fiscal easing in the US were key reasons for the decline in the US treasury yields.
- ▶ We expect US treasury yields will continue to set the tone for the overall credit market going forward. However, our view remains that in the absence of stronger inflation and growth numbers in the US, it is hard to see treasury yields moving aggressively higher from here. Especially when further rate hikes this year are already priced in to a large extent.
- ▶ We expect the Hong Kong dollar bond curve to remain correlated with the US interest rates and hence, expect the Hong Kong dollar bond yields to follow similar movements in US treasury yields. As for economic outlook of Hong Kong, Hong Kong retail sales will continue to depend on the recovery in inbound tourism and the stability of local economic sentiment.

Performance (%)	YTD	3 mths	1 yr	3 yrs	5 yrs
Fund (NAV)	3.4	2.3	1.6	5.9	5.5
Benchmark	3.5	2.4	1.9	6.8	7.3

Calendar year performance (%)	2012	2013	2014	2015	2016
Fund (NAV)	3.3	-3.5	1.5	2.5	-0.8
Benchmark	3.5	-3.0	2.7	2.8	-0.5

Source: HSBC Global Asset Management and International Index Company Limited as at 31 May 2017. NAV to NAV with dividend reinvested, in HK Dollar. Unlike the Fund, the benchmark returns do not include the impact of Fund expenses or Fund transaction costs.

¹ Markit iBoxx is a registered trade mark of Markit Indices Limited (previously known as International Index Company Limited) ("Markit") and has been licensed for the use by the Manager and the Trustee. Markit does not approve, endorse or recommend the Manager, the Trustee or the Fund. The Fund is not sponsored, endorsed or sold by Markit and Markit makes no representation regarding the suitability of investing in the Fund.

Investor should be aware that the Fund differs from a typical unit trust. Investor should refer to the offering document for details of these differences and the fees and expenses involved in investing in the Fund. Investor should note that the market price of the Fund's unit on the exchange may be different from the net asset value per unit of the Fund and the units may be delisted from the stock exchange. Past performance is not indicative of future performance. The document has not been reviewed by the Securities and Futures Commission.

www.assetmanagement.hsbc.com/hk-ABF

Issued by HSBC Global Asset Management (Hong Kong) Limited

Fund details

Launch date	17 June 2005
Fund size	HK\$2,759.66 million
Market closing price	HK\$100.80
NAV per unit	HK\$100.55
Manager	HSBC Investment Funds (Hong Kong) Limited
Investment adviser	HSBC Global Asset Management (Hong Kong) Limited
Minimum investment	100 units per board lot
Management fee	First HK\$1,560 million of net assets: 0.15% p.a. Thereafter: 0.12% p.a.
Dividend policy	Pay dividend
Dividend yield*	1.39%
Dealing	Daily
ISIN code	HK2819031405
Stock code	2819
Financial Y/E	31 July

* Dividend yield is average of annualised dividend yield of the last 2 dividend payout. Annualised dividend is defined as dividend payment/ex-dividend date bid price x 2. A positive distribution yield does not imply a positive return.

Please refer to the offering document for details of other fees.

Dividend of the Fund is not guaranteed and is subject to the Fund manager's discretion.

Source: HSBC Investment Funds (Hong Kong) Limited as at 31 May 2017.

Portfolio composition

Asset allocation	%
Government	91.1
Agency	11.4
Supranational	0.0
Cash & term deposits	-2.5

Percentage may not total 100 due to rounding.

Maturity breakdown	%
Cash & Term deposits	-2.5
Bonds 5-10 years	41.3
Bonds 4-5 years	12.8
Bonds 3-4 years	6.7
Bonds 2-3 years	22.4
Bonds 1-2 years	19.3
Bonds < 1 year	0.0

Percentage may not total 100 due to rounding.

Credit quality, Modified duration and yield

Credit quality mix (% of fund)	
June 17	
AAA	1.9
AA-	0.0
AA	97.7
A	3.0
Cash & term deposits	-2.5
NR	0.0
Average modified duration (year)*	4.54
Indicative weighted average portfolio yield (%)*	1.16

Top 10 holdings securities	%
HK Government 1.47% 20/02/19	11.7
HK Government 1.06% 05/02/20	7.0
HK Government 2.93% 13/01/20	6.9
HK Government 1.1% 17/01/23	5.0
HK Government 2.13% 16/07/30	4.7
HK Government 2.22% 07/08/24	4.7
Corp Andina De Fomento 1.81% 02/08/21	4.2
HK Government 0.91% 05/11/20	3.9
HK Government Bond 3.27% 28/08/23	3.6
HK Government 2.46% 04/08/21	3.6

Average modified duration is a measure of the interest rate sensitivity of a bond's price which considers a bond's yield, coupon and time to maturity. It is the weighted average maturity of the security's cash flow using the present value of those cash flows.

* The indicative weighted average portfolio yield is for reference only and does not represent the performance or distribution of the Fund. The figure would change over time in response to market movements. The figure is calculated by averaging the underlying holdings' annualised yields weighted by their market values. Should cash exist in the portfolio, it will be included in the calculation. A positive yield does not imply a positive return.

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