

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 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.
- 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. This document does not constitute an offering document.

ABF Hong Kong Bond Index Fund

July 2017

Fund objective

The 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.

Manager's review and comments

Market Review

- ▶ US treasury yields ended the month broadly higher. During the month, the US Federal Reserve raised the federal funds rate by 25 bps while they continued to forecast one more rate increase in 2017. Despite that, the 10-year US treasury yield declined amid soft US macroeconomic data (in particular inflation prints). However, coming into the last week of June, US treasury yield curve bear steepened amid less accommodative rhetoric by central bank governors in Europe.
- ▶ Largely tracking US treasury yields, Hong Kong sovereign yields increased by 11-18 bps for maturities equal to and greater than 2 years.
- ▶ Similar with HK dollar sovereign yields, HK dollar swap yields rose across the curve with the changes in yields ranging from 13 to 16 bps for maturities equal to and greater than 1 year.

Economic Review

- ▶ The US non-farm payrolls increased by 138k in May, falling short of 182k increase expected, while the unemployment rate fell to 4.3%, its lowest level since 2001. Meanwhile, the yoy growth in average hourly earnings in May came at 2.5%, flat against the growth in April. Inflation data came soft, as both the core CPI and core PCE continued to moderate.
- ▶ The Hong Kong Nikkei PMI declined to 50.5 in May from 51.1 in April, its highest level since early 2014, but still remained in an expansionary territory. A rise in Chinese demand for Hong Kong's goods and services has provided support for private sector activity in May. Retail sales increased slightly in May compared with a year earlier, on the back of stronger tourism related sales and a rebound in car sales. Hong Kong year-on-year export growth moderated to 4.0% in May from 7.1% in April.
- ▶ Consumer price inflation pressure continued to be modest and rose by 2.0% in May over the same month a year earlier, flat against the price in April. Meanwhile, the year-on-year rate of increase in underlying inflation also remained unchanged at 2% as compared to April. The benign inflation picture largely reflects limited external price pressure and steady increase in local costs.

Economic/Market Outlook

- ▶ US treasury movements may witness more uncertainties in the market with the US Federal Reserve on track for a balance sheet reduction as well as further hikes in interest rates. However, we believe the future path of the US Fed fund rate as well as the pace of balance sheet reduction will very much depend on overall macro conditions. With oil prices staying at low levels, inflation remains below its target as well as growth continues to be only moderate, we do not expect an aggressive increase in US treasury yields.
- ▶ 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. Meanwhile, the gradual improvement in global economic conditions, should provide support for Asia's trade and benefit Hong Kong's exports in the near term. However, the trading environment is still subject to uncertainties from US monetary policy normalization, Brexit-related developments and other political uncertainties in the US and Europe. In the meantime, Hong Kong inflationary pressure is expected to remain modest in the near term, given the low imported inflation and modest local cost pressures.

Performance (%)	YTD	3 mths	1 yr	3 yrs	5 yrs
Fund (NAV)	2.7	1.1	-0.5	5.4	4.6
Benchmark	2.9	1.2	-0.2	6.3	6.3

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 30 June 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.

[†] 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\$2,742.58 million
Market closing price	HK\$101.05
NAV per unit	HK\$99.93
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 30 June 2017.

Portfolio composition

Asset allocation	%
Government	91.1
Agency	8.2
Supranational	0.0
Cash & term deposits	0.7

Percentage may not total 100 due to rounding.

Maturity breakdown	%
Cash & Term deposits	0.7
Bonds 5-10 years	40.8
Bonds 4-5 years	10.0
Bonds 3-4 years	6.3
Bonds 2-3 years	25.7
Bonds 1-2 years	16.3
Bonds < 1 year	0.3

Percentage may not total 100 due to rounding.

Credit quality, Modified duration and yield Credit quality mix (% of fund)

	July 17
AAA	1.9
AA-	0.0
AA	94.5
A	3.0
Cash & term deposits	0.7
NR	0.0
Average modified duration (year)*	4.53
Indicative weighted average portfolio yield (%)*	1.36

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 2.22% 07/08/24	4.7
HK Government 2.13% 16/07/30	4.7
Corp Andina De Fomento 1.81% 02/08/21	4.3
HK Government 0.91% 05/11/20	3.9
Export-import Bank Korea 1.5% 02/08/19	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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