

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

September 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 yields declined broadly as escalating geopolitical risk related with North Korea was in focus in August and inflation readings for July stayed soft. The account of July's FOMC minutes was viewed as slightly dovish by the market, as it showed that policymakers are becoming increasingly concerned about consistently below target inflation.

Economic Review

- ▶ The US non-farm payrolls came in above expectations at 209K in July while unemployment rate edged down to 4.3% from 4.4% in June. The PCE core price index rose by 1.4% yoy, slightly down from 1.5% yoy in June.
- ▶ The Hong Kong Nikkei PMI continued to rise from 51.1 in June to 51.3 in July, as the improvement was mainly driven by stronger new orders, in particular with the increase in export orders from mainland China. Hong Kong's retail sales accelerated notably in July both in value terms and in volume terms, on the back of robust local consumption demand and further improvement in inbound tourism.
- ▶ Consumer price inflation continued to be well contained, as headline inflation inched up to 2.0% yoy in July from 1.9% yoy in June.

Economic/Market Outlook

- ▶ In August, geopolitical tensions sent the benchmark 10 year US treasury yield to its lowest levels since November 2016. Developments in the lingering geopolitical uncertainty may continue to introduce volatilities to US treasuries in the near term. Another key event to keep an eye on is that the US Fed is widely expected to start to shrink their balance sheet from September / October.
- ▶ 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, despite recent stabilization in Hong Kong economic growth, downside risks still persist.
- ▶ As for Hong Kong export growth, the moderate improvement in global economic conditions, if sustained, should provide support for Hong Kong's export growth. However, the trading environment is still subject to uncertainties from US monetary policy normalisation, Brexit-related developments, geopolitical risks, and other political uncertainties in the US and Europe.

Performance (%)	YTD	3 mths	1 yr	3 yrs	5 yrs
Fund (NAV)	3.2	-0.2	-0.2	5.1	4.1
Benchmark	3.5	0.0	0.1	6.1	5.9

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 August 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.

Fund details

Launch date	17 June 2005
Fund size	HK\$2,733.98 million
Market closing price	HK\$99.61
NAV per unit	HK\$101.80
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*	1.49%
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 August 2017.

Portfolio composition

Asset allocation	%
Government	91.4
Agency	8.3
Supranational	0.0
Cash & term deposits	0.3

Percentage may not total 100 due to rounding.

Maturity breakdown	%
Cash & Term deposits	0.3
Bonds 5-10 years	39.6
Bonds 4-5 years	2.2
Bonds 3-4 years	16.1
Bonds 2-3 years	20.8
Bonds 1-2 years	20.8
Bonds < 1 year	0.3

Percentage may not total 100 due to rounding.

Credit quality, Modified duration and yield

September 17	
AAA	1.9
AA-	0.0
AA	94.8
A	3.0
Cash & term deposits	0.3
NR	0.0
Average modified duration (year)*	4.45
Indicative weighted average portfolio yield (%)*	1.20

Top 10 holdings securities	%
HK Government 1.47% 20/02/19	11.8
HK Government 1.06% 05/02/20	7.1
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	4.3
HK Government 0.91% 05/11/20	3.9
HK Government 2.46% 04/08/21	3.6
MTR Corp 4.75% 11/05/20	3.5

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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