

**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

November 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<sup>1</sup>, before fees and expenses.

## Manager's review and comments

### Market Review

- ▶ The US treasury yield curve bear flattened in October, as the benchmark 10-year US treasury yields once reached 2.46% in the month, the highest in about seven months. 2-year yields moved from 1.49% to 1.60% over the month. Yields went up, as there was some concern that the next Fed Chair could be more hawkish than incumbent Fed Chair Yellen.

### Economic Review

- ▶ The Q3 annualized GDP growth qoq surprised on the upside and came in at 3%, only slightly below 3.1% in Q2 in spite of weather disruptions. The upside surprise came largely from a jump in inventories. Retail sales and durable goods orders remained upbeat in September. As for inflation, September core CPI inflation stayed unchanged at 1.7% yoy while core PCE remained soft in September at 1.3% yoy.
- ▶ The Hong Kong Nikkei PMI rose to 51.2 in September from 49.7 in August on the back of renewed growth in output and order books. September Hong Kong retail sales came in above market expectations at 5.6% yoy in value terms, mainly driven by higher spending in food and tourism related items.
- ▶ Inflation pressure remained generally contained in September, thanks to slow increases in import prices and moderate local cost pressure.

### Economic/Market Outlook

- ▶ Although the US Fed has started reducing its balance sheet and normalizing its monetary policy, in October the European Central Bank extended its asset purchase programme to at least September 2018, but at a reduced pace, signaling a bias for a continued accommodative monetary policy stance overall. Hence, we believe that the overall accommodative stance in Europe and Japan as well as the still benign inflation globally should keep the process of global rate normalization a gradual one.
- ▶ 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. Separately, the upside risks to Hong Kong inflation should remain limited in the near term, considering the low inflation in major import sources and the moderate rises in local costs.

Performance (%)	YTD	3 mths	1 yr	3 yrs	5 yrs
Fund (NAV)	1.9	-0.9	-1.3	3.4	2.7
Benchmark	2.3	-0.8	-0.9	4.5	4.5

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 October 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.

<sup>1</sup> 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\$2,699.25 million
Market closing price	HK\$102.60
NAV per unit	HK\$98.35
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 October 2017.

## Portfolio composition

Asset allocation	%
Treasuries	75.2
Sovereign	7.6
Agencies	5.5
Industrial	4.6
Supranational	4.3
Financial institutions	2.7

Percentage may not total 100 due to rounding.

Maturity breakdown	%
Bonds > 10 years	10.5
Bonds 5-10 years	26.0
Bonds 4-5 years	2.9
Bonds 3-4 years	16.6
Bonds 2-3 years	21.0
Bonds 1-2 years	21.7
Bonds < 1 year	1.2

Percentage may not total 100 due to rounding.

## Credit quality, Modified duration and yield

November 17	
AAA	0.0
AA-	0.0
AA	96.3
A	2.2
Cash & term deposits	0.0
NR	1.4
<b>Average modified duration (year)*</b>	<b>4.27</b>
<b>Indicative weighted average portfolio yield (%)*</b>	<b>1.51</b>

Top 10 holdings securities	%
Hong Kong Government 1.47% 20/02/19	11.9
Hong Kong Government 1.06% 05/02/20	7.1
Hong Kong Government 2.93% 13/01/20	7.0
Hong Kong Government 1.1% 17/01/23	5.0
Hong Kong Government 2.22% 07/08/24	4.7
CAF 1.81% 02/08/21	4.3
Hong Kong Government 0.77% 21/08/19	4.0
Hong Kong Government 0.91% 05/11/20	3.9
Hong Kong Government 2.46% 04/08/21	3.6
Mass Transit Railway 4.75% 11/05/20	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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