

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

ABF Hong Kong Bond Index Fund

January 2018

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

- ▶ The US treasury yield curve extended its flattening trend in December. With successful legislative passage of landmark tax reform bill in the month, short- and intermediate-term treasury yields rose while long-term yields remained capped amid soft November inflation prints.
- ▶ Largely tracking US treasuries, Hong Kong sovereign yield curve flattened, as it did for 2017, with the change in the 1-year and 10-year yields +18 bps and -6 bps respectively for the month.
- ▶ Similarly following Hong Kong sovereign yields, the HK dollar swap yield curve flattened as the 1 year yield moved up by around 18 bps while the 10-year yield ended the month almost unchanged.

Economic Review

- ▶ US congress passed its tax reform bill in arguably the biggest overhaul of the US tax system since the 1980s. The reforms should boost US economic growth via increased consumer spending and business investment, but the magnitude is uncertain. Despite continuing upbeat growth momentum, inflationary pressures remain subdued for the time being.
- ▶ Hong Kong's retail sales volume growth expanded 6.9%oya in November compared to an expansion of 3.6%oya in October while retail sales value growth came in at 7.5%oya versus 3.9%oya in October. Amid a benign global economic environment, exports expanded 7.8%oya in November from an expansion of 6.7%oya in October. Exports to mainland China and many other emerging Asian economies remained strong, and those to major advanced economies also generally showed year-on-year gains.
- ▶ Inflation pressure stayed modest as composite CPI inflation rate was at 1.6%oya in November versus 1.5% in October.

Economic/Market Outlook

- ▶ We are less concerned with the global policy mix as we believe both the European Central Bank and Bank of Japan are likely to continue their accommodative policy stances for most of 2018. With regards to the US, the Fed balance sheet reduction program has already been well telegraphed as a slow, transparent and mechanical approach that will be executed over several years.
- ▶ We expect the Hong Kong dollar bond curve to remain correlated with the US interest rates. Meanwhile, retail sales should remain supported by sanguine consumption sentiment, favourable job and income conditions, and recovery in inbound tourism. However, various external uncertainties remain in place and warrant attention from investors in the strategy. Separately, we believe that the upside risks to inflation should remain contained on the back of mild external price pressure and moderate rises in local costs.

Performance (%)	YTD	3 mths	1 yr	3 yrs	5 yrs
Fund (NAV)	1.6	-0.8	1.6	3.3	2.2
Benchmark	2.0	-0.7	2.0	4.4	4.0

Calendar year performance (%)	2013	2014	2015	2016	2017
Fund (NAV)	-3.5	2.5	2.5	-0.8	1.6
Benchmark	-3.0	2.7	2.8	-0.5	2.0

Source: HSBC Global Asset Management and International Index Company Limited as at 31 December 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\$2,815.09 million
Market closing price	HK\$100.55
NAV per unit	HK\$98.10
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 December 2017.

Portfolio composition

Asset allocation	%
Treasuries	75.0
Sovereign	7.8
Agencies	5.3
Industrial	5.1
Supranational	4.1
Financial institutions	2.6

Percentage may not total 100 due to rounding.

Maturity breakdown	%
Bonds > 10 years	10.5
Bonds 5-10 years	25.3
Bonds 4-5 years	5.9
Bonds 3-4 years	11.3
Bonds 2-3 years	21.8
Bonds 1-2 years	22.8
Bonds < 1 year	2.3

Percentage may not total 100 due to rounding.

Credit quality, Modified duration and yield

January 18	
AAA	0.0
AA-	0.0
AA	97.7
A	2.2
Cash & term deposits	0.0
NR	0.0
Average modified duration (year)*	4.17
Indicative weighted average portfolio yield (%)*	1.67

Top 10 holdings securities	%
Hong Kong Government 1.47% 20/02/19	11.4
Hong Kong Government 1.06% 05/02/20	6.8
Hong Kong Government 2.93% 13/01/20	6.7
Hong Kong Government 1.1% 17/01/23	4.8
Hong Kong Government 2.22% 07/08/24	4.4
CAF 1.81% 02/08/21	4.1
Hong Kong Government 0.77% 21/08/19	3.8
Hong Kong Government 0.91% 05/11/20	3.7
Hong Kong Government 2.46% 04/08/21	3.5
Mass Transit Railway 4.75% 11/05/20	3.4

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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