

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

March 2018

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 extended their rise and ended the month higher by 11-18 bps across the curve for maturities greater than or equal to 1 year. Yields first increased with the release of the US January's employment report. Both non-farm payrolls and average hourly earnings came in better than expected. Soon after, US treasuries rallied amid the global equity sell-off. Subsequently, yields continued to increase over the month with hawkish Fed minutes and a March rate hike nearly priced in by the market.
- ▶ Hong Kong sovereign yield curve steepened in the month, as short-dated government bond yields declined amid ample liquidity conditions while long-end government bond yields increased slightly tracking the movement in US treasuries.
- ▶ Similar with Hong Kong sovereign bonds, the HK dollar swap yield curve also steepened with the change in yields ranging from 4 to 11 bps for maturities greater than or equal to 1 year.

Economic Review

- ▶ The US non-farm payrolls increased by 200K in January. Meanwhile, core CPI also came in slightly higher than expected at 1.8% yoy in January. These fuelled concerns over inflationary pressures in the financial market.
- ▶ Hong Kong GDP grew by 0.8% qoq sa in Q4 2017, which brought the annual growth rate to 3.8% yoy in 2017 versus 2.0% in 2016. Private consumption remains the largest contributor to overall growth, followed by investment. Growth in Hong Kong retail sales came in weaker than market expectations at 4.1% and 2.2% yoy in value terms and in volume terms respectively, with a drop in sales of food, beverages and tobacco in January. Hong Kong exports surged in January compared with a year earlier amid strengthening global demand.
- ▶ Hong Kong headline CPI growth remained unchanged at 1.7% yoy in January. Meanwhile the underlying inflation growth) also stayed steady at 1.7% yoy, as a spike in electricity charge due to the low base effect was broadly offset by the transient drag effect from the difference in timing of the Chinese New Year.

Economic/Market Outlook

- ▶ We continued to believe that US treasuries may still be subject to volatility in the near term, particularly ahead of the FOMC meeting in March.
- ▶ Although US money rates rose with continued gradual increases in US Fed fund rates, ample liquidity has allowed Hong Kong's money rates to stay low relative to the US. This has driven a widening differential between the US and Hong Kong money rates, which drove the HKD to its multi-decade lows. However, we believe that in the near term, Hong Kong money rates are likely to be subject to some upside pressure.
- ▶ 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. Meanwhile, the favorable job and income conditions and sustained recovery in inbound tourism should continue to provide support for retail sales. We continue to hold the belief that inflation pressure should remain moderate but may increase slightly in the near term, amid a stronger global economy and continued expansion of the local economy.

Performance (%)	YTD	3 mths	1 yr	3 yrs	5 yrs
Fund (NAV)	-0.1	-0.2	0.5	1.7	3.1
Benchmark	-0.1	-0.2	0.8	2.7	4.8

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 28 February 2018. 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\$2,789.98 million
Market closing price	HK\$98.45
NAV per unit	HK\$97.40
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*	1.17%
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 28 February 2018.

Portfolio composition

Asset allocation	%
Treasuries	77.4
Sovereign	5.4
Agencies	5.2
Industrial	5.1
Supranational	4.2
Financial institutions	2.6

Percentage may not total 100 due to rounding.

Maturity breakdown	%
Bonds > 10 years	10.8
Bonds 5-10 years	22.9
Bonds 4-5 years	12.4
Bonds 3-4 years	11.4
Bonds 2-3 years	13.7
Bonds 1-2 years	25.2
Bonds < 1 year	3.6

Percentage may not total 100 due to rounding.

Top 10 holdings securities	%
Hong Kong Government 1.06% 05/02/20	6.9
Hong Kong Government 2.93% 13/01/20	6.7
Hong Kong Government 0.91% 05/11/20	5.6
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	4.2
Hong Kong Government 0.77% 21/08/19	3.8
Hong Kong Government 2.13% 16/07/30	3.8
Hong Kong Government 2.46% 04/08/21	3.5
Mass Transit Railway 4.75% 11/05/20	3.4

Credit quality, Modified duration and yield

Credit quality mix (% of fund)	March 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)[#]	4.42
Indicative weighted average portfolio yield (%)⁺	1.72

[#] 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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