

ABF Hong Kong Bond Index Fund

30 Apr 2018

Risk Disclosure

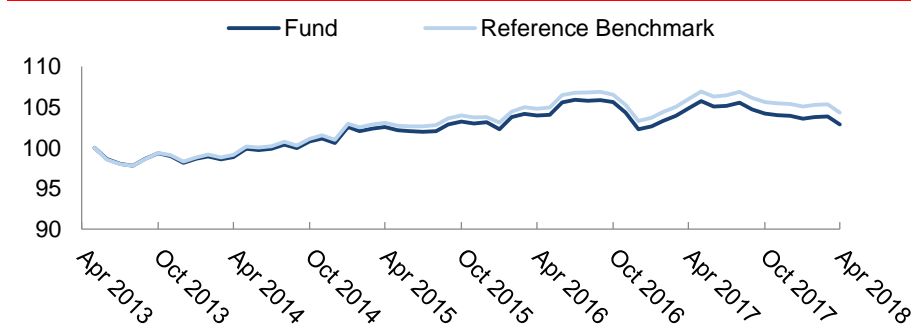
Investments involve risks. Investors are advised to consider their own investment objectives and circumstances in determining the suitability of an investment in the Fund. An investment in the Fund may not be suitable for everyone. If you are in any doubt about the contents of this document, you should 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.

Fund Objective and Strategy

This 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.

Performance (%)



Performance (%)	YTD	1M	3M	1Y	3Y ¹	5Y ¹
Fund	-1.00	-0.94	-0.66	-1.87	0.33	1.33
Reference Benchmark	-1.01	-0.96	-0.70	-1.58	1.22	2.83

Calendar Year Performance (%) ²	2013	2014	2015	2016	2017
Fund	-3.51	2.48	2.54	-0.83	1.62
Reference Benchmark	-3.02	2.70	2.79	-0.47	2.03

Past performance is not an indicator of future returns. The figures are calculated in the share class base currency, NAV to NAV basis with dividend reinvested, net of fees. If investment performance is not denominated in HKD or USD, HKD or USD based investors are exposed to exchange rate fluctuations.

Source: HSBC Global Asset Management, data as at 30 April 2018

Fund Details

UCITS V Compliant	No
Distribution Type	Distributing
Distribution Frequency	Semi-annually
Dealing Frequency	Daily
Management Fee	First HKD 1,560 million 0.15%, thereafter 0.12%
Base Currency	HKD
Domicile	Hong Kong
ISIN	HK2819031405
Inception Date	17 Jun 2005
NAV per Share	HKD 96.55
Fund Size	HKD 2,775,431,438
Bloomberg Ticker	2819 HK
Reference Benchmark	Markit iBoxx ABF Hong Kong TR HKD
Manager	Ming Leap

¹Result is cumulative when calculation period is over one year.

²The calendar year return of the first year is calculated between share class inception date and calendar year end of first year if the share class has less than 5-year history.

Fund change that may have material impact on performance: 11 Dec 2017 - charges of creating units increased. 29 Jan 2018 – dividend distribution policy changed. Performance is calculated according to net asset value per unit. The Fund's trading price on the stock exchange may be different from its net asset value per unit.

3-Year Risk Measures	Fund	Reference Benchmark
Volatility	2.3%	2.3%
Sharpe Ratio	-0.27	-0.14
Tracking Error	0.2%	-
Information Ratio	-1.48	-

5-Year Risk Measures	Fund	Reference Benchmark
Volatility	2.5%	2.4%
Sharpe Ratio	-0.13	-0.01
Tracking Error	0.2%	-
Information Ratio	-1.62	-

Characteristics	Fund	Reference Benchmark	Relative
Number of Holdings ex Cash	62	78	-
Average Coupon	1.95	1.96	-0.01
Effective Duration ³	4.23	4.23	-0.01
Portfolio Yield	2.06	2.13	-0.06
Average Yield to Maturity	2.06	2.13	-0.06

Characteristics	Fund	Reference Benchmark	Relative
Current Yield (Gross)	1.98	1.99	-0.01
Average Credit Quality ⁴	AA+/AA	AA+/AA	-
Maturity Average	4.57	4.73	-0.15
Number of Issuers	9	18	-

Credit Quality Rating Allocation (%)	Fund	Reference Benchmark	Relative
AAA	-	1.13	-1.13
AA	97.83	93.16	4.67
A	2.17	0.77	1.40
NR	-	4.95	-4.95
Cash	0.01	-	0.01

Sorted from highest to lowest rating. Cash is not included in any rating.

Sector Allocation (%)	Fund	Reference Benchmark	Relative
Treasuries	77.68	76.03	1.65
Sovereign	5.33	3.06	2.27
Agencies	5.25	3.40	1.85
Industrial	4.99	5.75	-0.76
Supranational	4.17	7.55	-3.38
Financial Institutions	2.57	4.21	-1.64
Cash	0.01	-	0.01

Sorted from largest to smallest per market values of weight.

Maturity Breakdown (Effective Duration)	Fund	Reference Benchmark	Relative
Bonds < 1 year	0.03	-	0.03
Bonds 1-2 years	0.39	0.48	-0.08
Bonds 2-3 years	0.31	0.33	-0.02
Bonds 3-4 years	0.36	0.44	-0.08
Bonds 4-5 years	0.62	0.54	0.08
Bonds 5-10 years	1.36	1.34	0.03
Bonds > 10 years	1.15	1.10	0.04
Total	4.23	4.23	-0.01

Sorted from shortest to longest per the length of maturity.

³Effective Duration, excludes interest rate futures, bond futures and excess return from interest rate swaps.

⁴Average credit rating uses 'Index rating' which is an average of the vendors: S&P, Fitch, Moody's. The average fund and benchmark rating does not include securities rated NR or NA.

Source: HSBC Global Asset Management, data as at 30 April 2018

Monthly Performance Commentary

Market Review

- US treasury yield curve bear steepened in April, as yields rose by 15-24 bps across the curve for maturities greater than or equal to 1 year. With the declining prospect of a trade war between China and the US, yields went up and the benchmark 10 year US treasury yield breached 3.00% on 25 April, driven by concerns about growing government borrowing and inflationary pressure amid recent rise in commodity prices.
- Largely tracking US treasury yields, Hong Kong sovereign yields increased across the curve by around 22-32 bps for maturities greater than or equal to 1 year. The Hong Kong Monetary Authority's (HKMA) purchase of Hong Kong dollar to defend the weak side of the convertibility undertaking at 7.85 gradually reduced the aggregate balance and withdrew liquidity from the money market, which led to an increase in money market rates in the month.
- Similarly, the HK dollar swap yields went up broadly tracking the movement in Hong Kong sovereign yields, with the increase in yields ranging from 16 to 24 bps for maturities greater than or equal to 1 year.

Economic Review

- The March US nonfarm payrolls came in short of market expectations at 103K versus consensus 185K. Headline CPI printed at 2.4% YoY in March up from 2.2% in February while PCE core, the Fed's preferred measure of inflation, rose by 1.9% on an annual basis in March from 1.6% in the prior month. Data released later in the month pointed to a brighter picture of economic activities. Q1 GDP growth ended better than expected at 2.3% QoQ annualized while housing starts, building permits and industrial production also came in stronger than expected.
- Hong Kong economy showed some signs of moderation in March, as Hong Kong Nikkei PMI eased to 50.6 after hitting a four year high of 51.7 in February. Slowing demand from mainland China weighed on overall output and new orders in the month. Hong Kong retail sales maintained a double-digit year-on-year increase in March, on the back of the upbeat consumer sentiment amid generally favourable economic conditions and the continued increase in visitor arrivals. The March retail sales grew by 11.4% and 10.0% in value terms and in volume terms respectively year-on-year. Separately, Hong Kong exports continued to register a good growth of 8.0% in March over a year earlier, amid benign global economy that kept trading and production activities broadly buoyant in Asia.
- Headline composite CPI rose by 2.6% in March year-on-year from the average of 2.3% for January and February combined. This was mainly due to an earlier arrival of the Easter holidays that began in late March this year. Additionally, a pick-up in prices of basic foodstuffs over a year earlier also contributed. Netting out the effect of all government's one-off relief measure, the composite CPI rose by 2.6% year-on-year.

Economic/Market Outlook

- We still view the balance of risks tilted towards the gradual build-up of cyclical inflation pressures. This is especially relevant to the US which continues to add jobs at a healthy pace and is operating with little spare capacity. This means the Fed could tighten policy at a faster than expected pace. On a positive note, while the US labour market has clearly tightened, wages have been relatively slow to respond, with wage growth still some way below pre-crisis levels. Meanwhile, the structural disinflationary forces remain such as technology development, globalization, and income inequality, which should help keep the structural regime of "price stability" intact. Hence, we still believe that the pace of the US monetary policy normalization will continue to be very "gradual" by historical standards.
- 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. The Hong Kong Monetary Authority's aggregate balance has dropped to defend the HKD peg, since the weak-side Convertibility Undertaking (CU) was triggered for the first time in 13 years on 12 April 2018. The aggregate balance should further decline and lead to tighter monetary conditions, if there is further demand from banks to buy USD against HKD at 7.85. However, there are still several moving parts affecting HKD money market liquidity, which are worthwhile to pay attention to. These include the HKD-denominated asset market performance, the southbound flows via the Stock Connect, the prospect of IPOs and etc.
- In the medium to long term, if the peg is sustained (which is our base scenario), 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 the Hong Kong economy, the favorable job and income conditions and sustained recovery in inbound tourism should continue to provide support for retail sales. Meanwhile, the sustained expansion of the global economy remains supportive to Hong Kong exports. However, uncertainty in the external trade environment amid trade negotiations between the US and other major economies, needs to be monitored closely. Separately, we continue to hold the belief that inflation pressure should remain moderate but may face some mild upside pressure in the near term, amid a stronger global economy and continued expansion of the local economy.

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Terms of Glossary

Convertible bond, is a type of bond that the holder can convert into a specified number of shares of common stock in the issuing company or cash of equal value.

Corporate bond, is bond issued by a company in order to raise financing.

Coupon, the annual interest rate paid on a bond, expressed as a percentage of the face value.

Credit quality, one of the principal criteria for judging the investment quality of a bond or bond mutual fund.

Developed markets, countries that are most developed in terms of its economy and capital markets.

Duration, a measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates.

Emerging markets (EM), nations' economies in the process of fast economic growth. Investments in emerging markets are generally considered to be with higher risk.

Government bond or Gilt, a loan to a national government in return for regular payments (known as the coupon) and a promise that the original investment (principal) is paid back at a specified date. Gilts are loans to the UK government.

High yield bond, is fixed income security with a low credit rating from a recognised credit rating agency. They are considered to be at higher risk of default, but have the potential for higher rewards.

Information ratio, is a ratio of portfolio returns above/under the returns of a benchmark to the volatility of those returns.

Investment grade bond, is considered investment grade or IG if its credit rating is BBB- or higher by Standard & Poor's or Baa3 or higher by Moody's.

Maturity, the period of time for which a financial instrument remains outstanding.

Effective Duration, is a duration value based on the probability of early redemption call by the bond issuer.

Sharpe ratio, a measure for calculating risk-adjusted return, and this ratio has become the industry standard for such calculations.

Tracking error, a measure of how closely a portfolio follows the index to which it is benchmarked.

Volatility, a measure of how much a fund's price goes up or down as a percentage of its average performance.

Yield to maturity, the total return anticipated on a bond if the bond is held until the end of its lifetime.

Portfolio Yield, the lowest potential yield that can be received on a bond without the issuer actually defaulting.

ABF Hong Kong Bond Index Fund

Supplement Information Sheet

30 Apr 2018

Fund	Base Currency	Distribution Frequency	Dividend ex-date	Dividend Amount	Annualised Yield (Distribution is not guaranteed and may be paid out of capital)
Fund	HKD	Semi-annually	30 Jan 2018	0.570000	1.17%
Fund	HKD	Semi-annually	28 Jul 2017	0.740000	1.49%

The above table cites the last dividend paid within the last 12 months only. Dividend is not guaranteed and may be paid out of capital, which will result in capital erosion and reduction in net asset value. A positive distribution yield does not imply a positive return. Past payout yields and payments do not represent future payout yields and payments. Historical payments may be comprised of both distributed income and capital.

The calculation method of annualised yield: $(\text{dividend value} / \text{NAV per share or unit as of ex-dividend date}) \times n$, n depends on the distributing frequency. Annually distribution is 1; semi-annually distribution is 2; quarterly distribution is 4; monthly distribution is 12.

The annualised dividend yield is calculated based on the dividend distribution on the relevant date with dividend reinvested, and may be higher or lower than the actual annual dividend yield.