

ABF Hong Kong Bond Index Fund

30 Jun 2018

Risk Disclosure

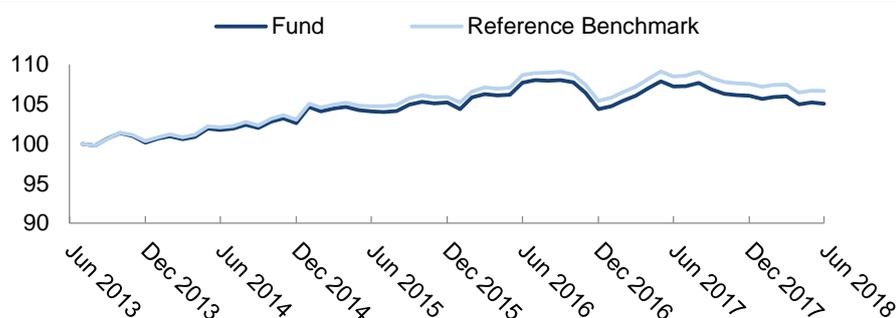
Investments involve risks. Investors are advised to consider their own investment objectives and circumstances in determining the suitability of an investment in the Fund. An investment in the Fund may not be suitable for everyone. If you are in any doubt about the contents of this document, you should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

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	-0.91	-0.12	-0.85	-2.00	0.93	4.41
Reference Benchmark	-0.82	-0.05	-0.77	-1.68	1.83	6.08

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 June 2018

Fund Details

UCITS V Compliant	No
Distribution Type	Distributing
Distribution Frequency	Semi-annually
Dealing Frequency	Daily
Max. Initial Charge	0.00%
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 96.64
Fund Size	HKD 2,777,944,694
Bloomberg Ticker	2819 HK
Reference Benchmark	Markit iBoxx ABF Hong Kong TR HKD
Manager	Ming Leap Steven Wong

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	-0.22	-0.09
Tracking Error	0.2%	-
Information Ratio	-1.48	-

5-Year Risk Measures	Fund	Reference Benchmark
Volatility	2.3%	2.2%
Sharpe Ratio	0.10	0.24
Tracking Error	0.2%	-
Information Ratio	-1.84	-

Characteristics	Fund	Reference Benchmark	Relative
Number of Holdings ex Cash	57	79	-
Average Coupon	1.93	1.97	-0.03
Effective Duration ³	4.17	4.17	0.00
Portfolio Yield	2.16	2.23	-0.07
Average Yield to Maturity	2.16	2.23	-0.07

Characteristics	Fund	Reference Benchmark	Relative
Current Yield (Gross)	1.96	2.00	-0.04
Average Credit Quality ⁴	AA+/AA	AA+/AA	-
Maturity Average	4.52	4.66	-0.15
Number of Issuers	9	18	-

Credit Quality Rating Allocation (%)	Fund	Reference Benchmark	Relative
AAA	-	1.99	-1.99
AA	97.78	92.14	5.65
A	2.18	0.77	1.41
NR	-	5.10	-5.10
Cash	0.04	-	0.04

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

Sector Allocation (%)	Fund	Reference Benchmark	Relative
Treasuries	77.86	74.91	2.95
Sovereign	5.33	3.04	2.29
Industrial	5.03	6.31	-1.28
Agencies	4.96	3.39	1.57
Supranational	4.19	7.53	-3.35
Financial Institutions	2.58	4.80	-2.22
Cash	0.04	-	0.04

Sorted from largest to smallest per market values of weight.

Maturity Breakdown (Effective Duration)	Fund	Reference Benchmark	Relative
Bonds < 1 year	0.02	-	0.02
Bonds 1-2 years	0.45	0.44	0.01
Bonds 2-3 years	0.22	0.31	-0.09
Bonds 3-4 years	0.54	0.58	-0.04
Bonds 4-5 years	0.53	0.52	0.01
Bonds 5-10 years	1.28	1.23	0.05
Bonds > 10 years	1.13	1.10	0.04
Total	4.17	4.17	0.00

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.

Monthly Performance Commentary

Market Review

The US treasury yield curve steepened slightly as the long-end of the curve ended the month roughly where it was at the beginning of June while the 1-5 year part of the curve moved higher. US treasury yields broadly initially increased in the run-up to the June FOMC meeting where the US Federal Reserve raised their target range for the federal funds rate by 25 bps to 1.75-2.00%. They also signaled two more rate hikes in the rest of 2018, revised up their inflation forecast by the end of the year and maintained an overall upbeat assessment of economic activity. However, yields trended lower later in the month as trade tensions between China and the US intensified, leading to worries about escalating global trade wars.

Hong Kong's money market rates continued to rise in June, as banks put aside funds for mid-year regulatory checks and companies bought the currency for dividend payments. Demand for cash for a mega size IPO in Hong Kong was also making funds costlier during the month. Meanwhile, the Hong Kong Monetary Authority (HKMA) raised its base rate to 2.25% from 2.00%, following a 25bps move by the US Fed.

Hong Kong sovereign yield curve shifted higher in June and flattened at the short-end as yields for tenors less than 3 years rose the most on the back of continued increase in the short-term interest rates amid tighter liquidity conditions in the city. The short-end of the curve has seen the greatest monthly movements with yields on 3 month and 1 year sovereign debts moved up by 43bps and 17bps respectively

Closely tracking the Hong Kong sovereign curve, the HK dollar swap yield curve moved higher along the curve and flattened at the short-end as yields on this part of the curve moved up the most with 3 month and 1 year swap rates rose by 33bps and 19bps respectively

Economic Review

On the back of above trend GDP growth in the city, capacity utilization has increased as slack in the economy diminishes. The labour market continued to tighten as evidence in the gradual fall of the unemployment rate to 2.8% in April, which was a multi-year low. By industry, jobs were mostly created in the construction, accommodation & food services, financial business services, and the public sectors. The labour market may further tighten from here given on-going infrastructure projects, such as the third airport runway at Chek Lap Kok, are still in progress.

Hong Kong's export growth accelerated in May, increased by 15.9% YoY. Imports have also increased by 16.5% YoY in May. The strength of Hong Kong's exports indicates that trade flows within Asia, especially those that go in and out of China, remain strong. Exports to China has accelerated, led mainly by growth in exports of 'electrical machinery, apparatus and appliances, and electrical parts thereof'.

Inflation in the city rose from 1.9% YoY in April to 2.1% YoY in May, mainly driven by slightly higher food prices and private sector rents. Hong Kong's food inflation only moved up slightly from April as it moves in tandem with Chinese food inflation, which have remained stable.

Economic/Market Outlook

Growth in the US continues to gather pace, with economic data continue to show signs of improvement. However, with the heightened US-Sino trade tensions at the backdrop and indirect impacts on business confidence and financial conditions difficult to gauge, we only expect US treasuries to trade range-bound with more-near term volatility. We also believe that the US hiking cycle will be gradual and measured.

Closer to home, despite the recent upward movements in Hong Kong's money market rates, we may see the pressure gradually eased as the aggregate balance continues to show that there is ample liquidity in the local banking system. However, upward pressure could resume if the interest-rate gap between Hong Kong and the US widens again. Over the longer term, Hong Kong dollar interbank borrowing costs are expected to gradually catch up with US dollar rates as US rates gradually move higher amid the US Fed's policy normalization. If the peg is sustained (which is our base scenario), we expect Hong Kong dollar bonds to remain correlated with the US interest rates and hence, expect the Hong Kong dollar bond curve to follow similar movements of the US treasury curve.

As for the Hong Kong economy, the favorable job and income conditions and sustained growth 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 in the near term. 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, if the robust economic conditions continue.

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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.

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Supplement Information Sheet

30 Jun 2018

	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.