

# ABF Hong Kong Bond Index Fund

31 Jul 2018

## Risk Disclosure

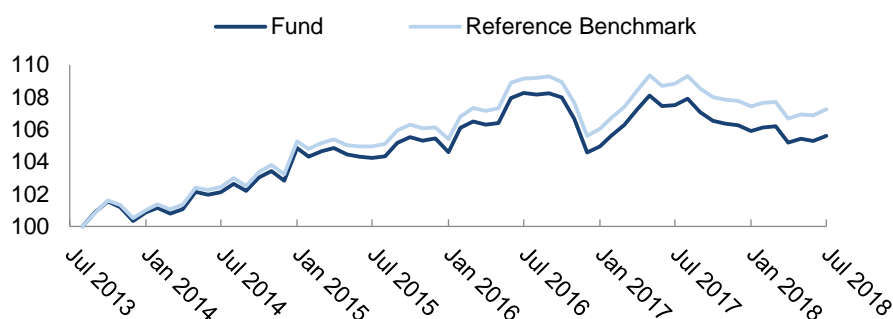
Investments involve risks. Investors are advised to consider their own investment objectives and circumstances in determining the suitability of an investment in the Fund. An investment in the Fund may not be suitable for everyone. If you are in any doubt about the contents of this document, you should 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 <sup>1</sup>	5Y <sup>1</sup>
Fund	-0.61	0.30	0.40	-1.76	1.33	5.40
Reference Benchmark	-0.48	0.35	0.54	-1.46	2.19	7.03

Calendar Year Performance (%) <sup>2</sup>	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 31 July 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 96.33
Fund Size	HKD 2,769,161,879
Bloomberg Ticker	2819 HK
Reference Benchmark	Markit iBoxx ABF Hong Kong TR HKD
Manager	Ming Leap Steven Wong

<sup>1</sup>Result is cumulative when calculation period is over one year.

<sup>2</sup>The 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	-0.18	-0.06
Tracking Error	0.2%	-
Information Ratio	-1.44	-

5-Year Risk Measures	Fund	Reference Benchmark
Volatility	2.3%	2.2%
Sharpe Ratio	0.17	0.31
Tracking Error	0.2%	-
Information Ratio	-1.81	-

Characteristics	Fund	Reference Benchmark	Relative
Number of Holdings ex Cash	55	77	-
Average Coupon	1.93	1.92	0.02
Effective Duration <sup>3</sup>	4.21	4.20	0.00
Portfolio Yield	2.11	2.17	-0.06
Average Yield to Maturity	2.11	2.17	-0.06

Characteristics	Fund	Reference Benchmark	Relative
Current Yield (Gross)	1.96	1.95	0.01
Average Credit Quality <sup>4</sup>	AA+/AA	AA+/AA	-
Maturity Average	4.55	4.69	-0.14
Number of Issuers	9	18	-

Credit Quality Rating Allocation (%)	Fund	Reference Benchmark	Relative
AAA	-	2.02	-2.02
AA	97.80	92.80	5.00
A	2.20	0.78	1.41
NR	-	4.40	-4.40
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	77.82	75.39	2.43
Sovereign	5.30	3.05	2.25
Industrial	5.06	6.38	-1.32
Agencies	4.99	2.67	2.32
Supranational	4.22	7.64	-3.41
Financial Institutions	2.60	4.87	-2.27
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	0.01	-	0.01
Bonds 1-2 years	0.43	0.41	0.02
Bonds 2-3 years	0.21	0.29	-0.08
Bonds 3-4 years	0.53	0.57	-0.04
Bonds 4-5 years	0.52	0.51	0.01
Bonds 5-10 years	1.38	1.38	0.00
Bonds > 10 years	1.13	1.03	0.10
<b>Total</b>	<b>4.21</b>	<b>4.20</b>	<b>0.00</b>

Sorted from shortest to longest per the length of maturity.

<sup>3</sup>Effective Duration, excludes interest rate futures, bond futures and excess return from interest rate swaps.

<sup>4</sup>Average 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

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### Market Review

US treasury yields shifted up across the curve with upward movements ranging from 10 to 14bps. During the month, the US job report showed another month of gains in excess of 200,000, and the US wholesale prices rose in June from a year ago. The upbeat economic data coupled with positive earnings surprises have boosted risk taking sentiment, putting upward pressure on US treasury yields. Federal Reserve Chairman Jerome Powell's upbeat assessment of the US economy during his second day of testimony to Congress also reiterated the Fed's stance to further tighten. Meanwhile, the on-going development on the US's trade negotiations with China continued to cast a shadow over the nation's economic growth outlook, putting a cap on the rise in yields during the month.

Hong Kong sovereign yield curve shifted lower in July and steepened slightly at the short-end as yields decreased more for tenors less than 3 years. The short-end of the curve has seen the greatest monthly movements with yields on 3 month sovereign debts moved down by 20bps while the net movement at the 10-year tenor was only 4bps.

Closely tracking the Hong Kong sovereign curve, the HK dollar swap yield curve also moved lower along the curve but steepened slightly at the short-end. On average the Hong Kong dollar swap rates moved down by about 5bps along the curve.

### Economic Review

The city's retail sales growth continued accelerated on the back of strong Chinese tourist arrival and household spending. In 1H18, Chinese tourist arrival increased at the same rate as retail sales. Sectors that are more linked to Chinese tourist arrival continued to perform well. For instance, sales of jewelry, watches, clocks and valuable gifts continued to grow. Meanwhile, sales growth of consumer goods which are popular among mainland tourists such as Chinese drugs and herbs, medicines and cosmetics also accelerated.

The Hong Kong composite PMI fell for the fourth consecutive month in June, weighed on by shrinking new orders and output. Sales to the mainland have fallen with softer economic conditions and rising trade tension as the main reasons for the drop in new orders. This came at a time when businesses were faced with increased cost pressures. While raw material prices rose in June, businesses have not been able to fully pass on the higher costs to customers since demand has also been soft due to rising trade tension. Weaker activity may be reflected in economic data over the coming quarters.

The city's export growth slowed materially YoY in June compared to May. Notably, the value of total exports of non-metallic mineral manufactures slowed. Import growth has also slowed YoY in June. The value of imports of telecommunication and sound recording and reproducing apparatus and equipment slowed the most among all export product groups.

### 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 tension 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.

Pressure from local factors (eg. massive initial public offerings) which caused Hong Kong money market rates to rise in the last few months have eased in July. The city has seen its money market rates trended lower over the month as liquidity in the local banking system remained ample. The HIBOR-LIBOR 3 moth spread also widened as a result after months of contraction. However, upward pressure in Hong Kong's money market rates could resume if the interest-rate gap between Hong Kong and the US continues to widen. 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, we expect the sustained growth in inbound tourism should continue to provide support for retail sales. At the same time, inflation pressure continues to build up, reflecting higher global inflation and continued feed-through of earlier rises in fresh-letting residential rentals. However, inflation is expected to remain within a moderate range for 2018 as a whole. Meanwhile, we believe Hong Kong will be inevitably affected by the US-China trade war and goods flow to and from China are likely to be reduced. The impact on Hong Kong is expected to be moderate but not negligible, and private consumption is expected to remain the main driver of GDP growth in 2018.

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## Terms of Glossary

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**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

31 Jul 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 Jul 2018	0.600000	1.25%
Fund	HKD	Semi-annually	30 Jan 2018	0.570000	1.17%

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.