Asian fixed income: Key takeaways

◆ **A large but underrepresented market:** Asia ex Japan bond markets make up about one-fifth of the global bond market size but are still underrepresented in global indices. But as China onshore bonds are now being added to the Bloomberg Barclays Global Aggregate Index in a 20-month inclusion period, we are beginning to see changes in the way that China bonds are represented globally.

◆ **A market with solid fundamentals:** Growing strength of Asian economies has been reflected in the upgrades to several sovereign credit ratings in recent years, including those for South Korea, India, Indonesia and the Philippines. At the same time, Asian corporates in the region are exhibiting improving trends in bottom-up fundamentals whilst trading at a yield premium over comparable US and Euro credits.

◆ **Providing diversification benefit for global credit portfolios:** The low correlation of Asian fixed income to other fixed income markets (0.5 or below based on correlation of spreads), as well as Asia credit’s lower volatility versus markets such as US credit, offers good diversification for global investors. Additionally, Asian bonds have historically been able to achieve better risk adjusted returns over various periods versus global bonds.

◆ **HSBC Global Asset Management has been investing in Asia fixed income since 1996** and offers investors pan Asian USD credit capabilities, regional local currency capabilities, as well as single country fixed income capabilities, including China and India fixed income.

Source: JP Morgan, Bloomberg, HSBC Global Asset Management, as of April 2019
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Investing in Asian fixed income: Underrepresentation

Asian fixed income universe

Asia ex Japan’s economy has been growing steadily and remains one of the fastest growing major regions in the world. The region is expected to grow at 5.7% in 2019, while G7 economies will grow at just around 1.6%. Asia’s overall macro conditions remain intact, particularly with the improving strength of balance sheets as a result of relatively lower debt to GDP ratios versus developed economies and the better FX reserve positions today versus past periods.

The region’s GDP as proportion to the world GDP was 20% at the turn of the century. Today, the proportion has grown to 38%. Despite rising global influence, Asia remains considerably underrepresented in global bond indices, with Asia accounting for only around 4% of Bloomberg Barclays Global Aggregate Index – this weight is expected to increase to around 9% by November 2020 as China onshore bonds are currently in a 20-month phased-in index inclusion process.

Asia ex Japan continues to be a fast growing region

Asia makes up only 4% of a major global index

The index weight is expected to increase to around 9% as Bloomberg Barclays is in a 20-month inclusion process of adding onshore Chinese bonds

Index representation refers to Bloomberg Barclays Global Aggregate Index

Source: IMF, Bloomberg, HSBC Global Asset Management, as of April 2019

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Diverse market, diverse opportunities

The Asian fixed income universe is made up of markets with different economic profiles. GDP growth in Asian markets range from 2% to as high as 7%, as each market is undergoing its own phase of economic development, with some markets currently experiencing major structural reforms. Sovereign credit rating, inflation levels and bond yields vary across the markets, pointing to the diverse set of investment opportunities within the Asian fixed income universe. Asia’s inherent features provides an important diversification benefit to a global portfolio.

Thailand
GDP growth: +3.6%
Inflation: +1.2%
10-year yield: 2.43%
Credit rating: Baa1 / BBB+

China
GDP growth: +6.3%
Inflation: +2.5%
10-year yield: +3.34%
Credit rating: A1 / A+

Hong Kong
GDP growth: +2.3%
Inflation: +2.9%
10-year yield: 1.58%
Credit rating: Aa2 / AA+

Taiwan
GDP growth: +2.1%
Inflation: +0.7%
10-year yield: 0.69%
Credit rating: Aa3 / AA-

Pakistan
GDP growth: +3.5%
Inflation: +8.82%
10-year yield: 12.97%
Credit rating: B3 / B-

Korea
GDP growth: +2.3%
Inflation: +0.6%
10-year yield: 1.88%
Credit rating: Aa2 / AA

India
GDP growth: +7.0%
Inflation: +2.9%
10-year yield: +7.38%
Credit rating: Baa2 / BBB-

Philippines
GDP growth: +6.0%
Inflation: +3.0
10-year yield: +5.79%
Credit rating: Baa2 / BBB+

Sri Lanka
GDP growth: +3.5%
Inflation: +4.5%
10-year yield: 10.92%
Credit rating: B2 / B

Malaysia
GDP growth: +4.5%
Inflation: +6.2%
10-year yield: +3.77%
Credit rating: A3 / A-

Indonesia
GDP growth: +5.1%
Inflation: +2.8%
10-year yield: +8.03%
Credit rating: Baa2 / BBB-

Singapore
GDP growth: +2.5%
Inflation: +0.8%
10-year yield: +2.18%
Credit rating: Aaa / AAA

GDP growth is based on 2019 consensus forecast. Inflation is based on CPI year-on-year increase as of April 2019. 10-year yield is the 10-year government bond yield as of 9 May 2019. Credit rating is presented as Moody’s / S&P Source: IMF, Bloomberg, HSBC Global Asset Management, as of May 2019. Any forecast, projection or target where provided is indicative only and is not guaranteed in any way. HSBC accepts no liability for any failure to meet such forecasts, projections or targets. For illustrative purposes only.

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Investing in Asian fixed income: Overview of market structure

Asian fixed income universe

- The Asian fixed income market can be split broadly into two categories:
  1) Asian USD credit market
  2) Local currency bond market
- The Asian USD credit market is approximately USD945 billion in market size\(^1\) and is made up of a diverse geography of countries, and categorized by investment grade and high yield bonds. The market is accessible to global investors
- The Asian local currency bond market is over USD14 trillion in market size and over half of this is made up of China alone, a market which has opened up significantly in the last few years and is the target for global bond index inclusion (see page 13)

### Asian USD credit markets (USD billion)

<table>
<thead>
<tr>
<th>Country</th>
<th>Size of Asian USD credit market (LHS)</th>
<th>Yield (RHS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>568</td>
<td>4.29</td>
</tr>
<tr>
<td>Indonesia</td>
<td>243</td>
<td>4.27</td>
</tr>
<tr>
<td>Korea</td>
<td>343</td>
<td>4.26</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>202</td>
<td>4.33</td>
</tr>
<tr>
<td>India</td>
<td>152</td>
<td>4.23</td>
</tr>
<tr>
<td>Philippines</td>
<td>121</td>
<td>4.27</td>
</tr>
<tr>
<td>Singapore</td>
<td>109</td>
<td>4.18</td>
</tr>
<tr>
<td>Malaysia</td>
<td>93</td>
<td>4.15</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>83</td>
<td>4.11</td>
</tr>
<tr>
<td>Macau</td>
<td>60</td>
<td>4.10</td>
</tr>
<tr>
<td>Mongolia</td>
<td>53</td>
<td>4.41</td>
</tr>
<tr>
<td>Taiwan</td>
<td>50</td>
<td>4.12</td>
</tr>
<tr>
<td>Malaysia</td>
<td>40</td>
<td>4.13</td>
</tr>
<tr>
<td>Singapore</td>
<td>30</td>
<td>4.15</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>20</td>
<td>4.19</td>
</tr>
<tr>
<td>Indonesia</td>
<td>10</td>
<td>4.30</td>
</tr>
<tr>
<td>Philippines</td>
<td>5</td>
<td>4.25</td>
</tr>
</tbody>
</table>

### Asian local currency bond markets (USD billion)

<table>
<thead>
<tr>
<th>Country</th>
<th>Size of Asian local currency bond market (LHS)</th>
<th>10-year Government Yields (RHS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>5,400</td>
<td>3.75</td>
</tr>
<tr>
<td>Korea</td>
<td>4,400</td>
<td>4.29</td>
</tr>
<tr>
<td>India</td>
<td>2,300</td>
<td>7.46</td>
</tr>
<tr>
<td>Thailand</td>
<td>1,600</td>
<td>6.11</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1,100</td>
<td>6.34</td>
</tr>
<tr>
<td>Singapore</td>
<td>1,000</td>
<td>6.02</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>900</td>
<td>6.00</td>
</tr>
<tr>
<td>Indonesia</td>
<td>600</td>
<td>5.58</td>
</tr>
<tr>
<td>Philippines</td>
<td>400</td>
<td>6.00</td>
</tr>
</tbody>
</table>

### Asian fixed income universe

<table>
<thead>
<tr>
<th></th>
<th>Asian IG</th>
<th>Asian HY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yield (%)</td>
<td>4.29</td>
<td>7.46</td>
</tr>
<tr>
<td>Duration (years)</td>
<td>4.94</td>
<td>3.21</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Asian local bond index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yield (%)</td>
<td>3.75</td>
</tr>
<tr>
<td>Duration (years)</td>
<td>6.60</td>
</tr>
</tbody>
</table>

Note 1: Market size is based on JP Morgan Asia Credit Index as proxy.
Source: JPMorgan Asia Credit Index, AsiaBondsOnline, RBI, CCIL, SEBI, Markit, as of 30 April 2019. Size of Asian local currency bond markets is as of 31 December 2018.

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Investing in Asian fixed income: Sovereign ratings

Comparing quality of Asia versus non-Asia emerging markets

- Asian sovereigns have higher credit ratings when compared to non-Asian emerging markets. Singapore and Hong Kong are regarded as developed markets and are rated AAA and AA+ respectively (by S&P), while Korea is becoming more recognized by investors as a developed market.
- India, Indonesia and the Philippines, while considered developing markets, have all seen a number of upgrades in their sovereign ratings in the recent years, reflecting improvements in their fiscal and monetary stability and other external metrics.

Foreign currency sovereign ratings for major markets

<table>
<thead>
<tr>
<th>Credit rating</th>
<th>Major Asia</th>
<th>Major non-Asia EM</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA</td>
<td>Singapore Aa(S)/AAA(S)</td>
<td>Kuwait Aa2(S)/AA+(S)</td>
</tr>
<tr>
<td></td>
<td>Hong Kong Aa2(S)/AA+(S)</td>
<td>Qatar Aa3(S)/AA-(S)</td>
</tr>
<tr>
<td></td>
<td>Korea Aa2(S)/AA(S)</td>
<td>United Arab Emirates Aa2(S)/NR</td>
</tr>
<tr>
<td></td>
<td>Taiwan Aa3(S)/AA-(S)</td>
<td></td>
</tr>
<tr>
<td>AA</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>China A1(S)/A+(S)</td>
<td>Chile A1(S)/A+(S)</td>
</tr>
<tr>
<td></td>
<td>Malaysia A3(S)/A-(S)</td>
<td>Saudi Arabia A1(S)/A-(S)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Israel A1(P)/AA-(S)</td>
</tr>
<tr>
<td>A</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BBB</td>
<td>India Baa2(S)/BBB-(S)</td>
<td>Peru A3(S)/BBB+(S)</td>
</tr>
<tr>
<td></td>
<td>Indonesia Baa2(S)/BBB-(S)</td>
<td>Colombia Baa2(N)/BBB-(S)</td>
</tr>
<tr>
<td></td>
<td>Philippines Baa2(S)/BBB+(S)</td>
<td>Mexico A3(S)/BBB+(N)</td>
</tr>
<tr>
<td></td>
<td>Thailand Baa1(S)/BBB+(S)</td>
<td>Russia Baa3(S)/BBB-(S)</td>
</tr>
<tr>
<td>BB</td>
<td>Brazil Ba2(S)/BB-(S)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Turkey Ba3(N)/B+(S)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>South Africa Baa3(S)/BB(S)</td>
<td></td>
</tr>
<tr>
<td>B</td>
<td>Nigeria B2(S)/B(S)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Argentina B2(S)/B(S)</td>
<td></td>
</tr>
</tbody>
</table>

Credit rating is presented as Moody's(outlook)/S&P(outlook); (S) - Stable outlook, (P) - Positive outlook, (N) - Negative outlook.

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Asian USD credit: A closer look at quality

Good levels of diversification

- Asian USD credit is made up of issues of various countries, sectors, tenors and credit buckets
- While China’s exposure is dominant in the Asian USD credit index, exposure to China can be reduced with the use of diversified indices

Asian USD credit breakdown

Country breakdown

- China (51.1%)
- Indonesia (11.1%)
- Korea (8.9%)
- Hong Kong (8.1%)
- India (5.9%)
- Philippines (4.4%)
- Singapore (2.6%)
- Malaysia (2.3%)
- Thailand (1.6%)
- Sri Lanka (1.4%)
- Macau (1.1%)
- Pakistan (0.6%)
- Mongolia (0.4%)
- Taiwan (0.3%)
- Vietnam (0.1%)
- Cambodia (0%)
- Maldives (0%)

Sector breakdown

- Financial (23.8%)
- Quasi (22.2%)
- Real Estate (14.4%)
- Sovereign (13.6%)
- TMT (6.1%)
- Oil & Gas (5.3%)
- Utilities (4.2%)
- Diversified (2.3%)
- Consumer (2.2%)
- Infrastructure (1.9%)
- Metals & Mining (1.8%)
- Industrial (1.8%)
- Transport (0.3%)

Rating breakdown

- BBB (39.9%)
- A (30.9%)
- B (8.3%)
- BB (7.1%)
- NR (6.4%)
- AA (6.4%)
- AAA (0.5%)
- C (0.5%)

Duration breakdown

- 0-3Y (40.6%)
- 3-5Y (28.2%)
- 5-7Y (13.5%)
- 7-10Y (8.2%)
- 10-15Y (6.6%)
- 15Y+ (3%)

Source: Bloomberg, HSBC Global Asset Management, data as of April 2019

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Asian USD credit: Solid fundamentals

Improvement in fundamentals

- Bottom-up fundamentals remain solid, with the overall market seeing an improvement in credit metrics over the last few years: EBITDA and net income margins have improved along with EBITDA/interest expense ratio. Leverage has come down while liquidity remains sound. For Asian IG corporates, leverage has come down to near historical lows.
- While the Asia high yield default rate has risen to 2.5% in 2018 and is expected to stay around this level in 2019, the rise is not systemic in nature. However this also points to the importance of rigorous credit selection when investing in Asian credits.

Solid fundamentals for Asian USD credit

![Graphs showing EBITDA/Int Exp, Net Debt/EBITDA, and Cash/Total Debt ratios from 2010 to 2018.]

Default rates for high yield corporates: Remains low in Asia

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>2.7%</td>
<td>1.2%</td>
<td>1.5%</td>
<td>3.1%</td>
<td>1.0%</td>
<td>0.9%</td>
<td>2.5%</td>
<td>2.5%</td>
</tr>
<tr>
<td>EM Europe</td>
<td>5.2%</td>
<td>2.3%</td>
<td>4.0%</td>
<td>2.5%</td>
<td>3.6%</td>
<td>4.0%</td>
<td>0.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Latin America</td>
<td>3.6%</td>
<td>10.6%</td>
<td>6.5%</td>
<td>5.7%</td>
<td>9.5%</td>
<td>2.0%</td>
<td>2.1%</td>
<td>3.0%</td>
</tr>
<tr>
<td>MENA</td>
<td>0.2%</td>
<td>0.0%</td>
<td>4.6%</td>
<td>4.0%</td>
<td>5.7%</td>
<td>3.2%</td>
<td>0.0%</td>
<td>2.8%</td>
</tr>
<tr>
<td>EM (total)</td>
<td>3.5%</td>
<td>4.3%</td>
<td>3.8%</td>
<td>3.8%</td>
<td>5.1%</td>
<td>2.2%</td>
<td>1.6%</td>
<td>2.6%</td>
</tr>
<tr>
<td>US</td>
<td>1.3%</td>
<td>0.7%</td>
<td>1.6%</td>
<td>1.8%</td>
<td>3.6%</td>
<td>1.3%</td>
<td>1.8%</td>
<td>1.5%</td>
</tr>
</tbody>
</table>

Source: Bloomberg, JP Morgan, HSBC Global Asset Management as of 30 April 2019

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Asian USD credit: Yield premium with lower duration

Competitive yields relative to developed markets

- Yields are currently trading near their 5-year average for Asian IG and Asian HY corporates after having tightened year-to-date
- Still, Asian credit are trading at a yield premium over comparable US and Euro credits, despite stronger credit fundamentals in the region. This should offer better value for Asian bond investors

Yield and duration comparison

Yield to maturity (%)

<table>
<thead>
<tr>
<th></th>
<th>Yield (Current)</th>
<th>Yield (5-yr average)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia IG Corp (A3)</td>
<td>4.42</td>
<td>3.99</td>
</tr>
<tr>
<td>US IG Corp (A3)</td>
<td>3.99</td>
<td>3.45</td>
</tr>
<tr>
<td>Euro IG Corp (A3)</td>
<td>0.83</td>
<td>0.45</td>
</tr>
<tr>
<td>EM IG Corp (Baa1)</td>
<td>4.39</td>
<td>3.99</td>
</tr>
</tbody>
</table>

Duration (years)

<table>
<thead>
<tr>
<th></th>
<th>Duration</th>
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<tbody>
<tr>
<td>Asia IG Corp (A3)</td>
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<td>US IG Corp (A3)</td>
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<tr>
<td>Euro IG Corp (A3)</td>
<td>3.0</td>
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<tr>
<td>EM IG Corp (Baa1)</td>
<td>4.0</td>
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</table>

Source: JP Morgan, Bloomberg, as of 30 April 2019
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Asian USD credit: Diversification benefit

Good diversification for global credit portfolios

◆ 76% of Asia’s new issuance in 2018 was allocated to Asian investors; the strong local investor base is one of the factors that contribute to the region being less vulnerable to movements in market sentiment in both emerging markets overall and globally
◆ Asia credit exhibits lower volatility when compared to both emerging market credit and US credit. Over the last 5 years, Asian IG corporates were found to be less volatile than both EM IG corporates and US IG corporates. In the high yield space, Asia has been less volatile than emerging market, and has largely been less volatile than US HY corporates
◆ Asian credit exhibits low correlation to credit in other regions, while other regions are more highly correlated with each other

Lower volatility than other regions

Standard deviation (12-month rolling) annualized

Low correlation to other asset classes

Correlation of spreads

<table>
<thead>
<tr>
<th></th>
<th>Asia IG</th>
<th>Asia HY</th>
<th>Asian Composite</th>
<th>CEMBI IG</th>
<th>CEMBI HY</th>
<th>US IG Corp</th>
<th>US HY Corp</th>
<th>Euro IG Corp</th>
<th>Euro HY Corp</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia IG</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Asia HY</td>
<td>0.74</td>
<td>1.00</td>
<td></td>
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<td></td>
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<tr>
<td>Asian Composite</td>
<td>0.89</td>
<td>0.87</td>
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<tr>
<td>CEMBI IG</td>
<td>0.12</td>
<td>0.14</td>
<td>0.18</td>
<td>1.00</td>
<td></td>
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</tr>
<tr>
<td>CEMBI HY</td>
<td>0.31</td>
<td>0.43</td>
<td>0.44</td>
<td>0.81</td>
<td>1.00</td>
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<tr>
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<td>Euro IG Corp</td>
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<td>0.45</td>
<td>0.59</td>
<td>0.49</td>
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<tr>
<td>Euro HY Corp</td>
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<td>0.43</td>
<td>0.51</td>
<td>0.39</td>
<td>0.55</td>
<td>0.60</td>
<td>0.65</td>
<td>0.76</td>
<td>1.00</td>
</tr>
</tbody>
</table>

Correlation was correlated from spreads, for the 3-year period ending 30 April 2019
Source: JP Morgan, Bloomberg, HSBC Global Asset Management, data as of 30 April 2019
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Asian local currency bonds: Reasons for considering

Improving trends of Asian economies are supportive of local debt markets

- Strong current account positions and expansion of FX reserves: Current account positions are strong for most Asian markets as backed up by healthy FX reserves
- Debt ratios are lower: Many Asian economies are net creditor to the rest of the world with their external debt to percentage of GDP ratios remaining relatively stable
- Increased likelihood of further rating upgrades: As macro economic fundamentals improve in the region, further rating upgrades are likely
- Attractive yields: Benign inflation in many Asian markets are providing valuation support for Asian rates

Expansion of foreign exchange reserves helps insulate debt from currency shocks

Foreign reserves (USD billion)

External debt position is much better in Asia

Debt to GDP

Real yields in the Asia region are attractive

10-year government bond yield minus CPI (%)

Source: CEIC, Bloomberg, HSBC Global Asset Management, as of April 2019
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Asian local currency bonds: China in focus

China index inclusion

Bloomberg Barclays Global Aggregate China index inclusion

<table>
<thead>
<tr>
<th>What is happening?</th>
<th>What will change?</th>
<th>What is being added?</th>
</tr>
</thead>
<tbody>
<tr>
<td>◆ Bloomberg began adding China onshore securities to the Bloomberg Barclays Global Aggregate (BGA) for the first time, starting in April 2019. This inclusion also impacts other Bloomberg indices.</td>
<td>◆ China securities denominated in CNY are expected to make up 6.1% of BGA upon completion of the inclusion period in November 2020.</td>
<td>◆ BGA is including 364 CNY-denominated Chinese government bonds and policy bonds (See Figure 1). The inclusion represents CNY 21.4 trillion in market value (USD 3.3 trillion), or 6.1% of the BGA index.</td>
</tr>
<tr>
<td>◆ The inclusion period is being phased over 20 months and will be completed in November 2020.</td>
<td>◆ Other existing currencies within BGA will see a reduction in market value weight in the index.</td>
<td>◆ Eligible bonds include China government bonds and policy bonds. Chinese corporate bonds are not currently eligible for this inclusion.</td>
</tr>
</tbody>
</table>

Potential to improve risk return profile

◆ The risk return profile of a portfolio can be potentially enhanced with China onshore bonds. China onshore bonds have achieved better risk adjusted returns over various periods.
◆ We expect more investors to take advantage of this as China’s index weight increases and becomes part of the mainstream.

### China has generated higher cumulative total returns over most periods

<table>
<thead>
<tr>
<th>Cumulative return</th>
</tr>
</thead>
<tbody>
<tr>
<td>135%</td>
</tr>
<tr>
<td>115%</td>
</tr>
<tr>
<td>95%</td>
</tr>
<tr>
<td>75%</td>
</tr>
<tr>
<td>55%</td>
</tr>
<tr>
<td>35%</td>
</tr>
<tr>
<td>15%</td>
</tr>
<tr>
<td>-5%</td>
</tr>
</tbody>
</table>

- 1-yr
- 3-yr
- 5-yr
- 10-yr
- 15-yr

**China onshore bonds**

### China has lower volatility over a longer term

<table>
<thead>
<tr>
<th>Annualised volatility</th>
</tr>
</thead>
<tbody>
<tr>
<td>6%</td>
</tr>
<tr>
<td>5%</td>
</tr>
<tr>
<td>4%</td>
</tr>
<tr>
<td>3%</td>
</tr>
<tr>
<td>2%</td>
</tr>
<tr>
<td>1%</td>
</tr>
<tr>
<td>0%</td>
</tr>
</tbody>
</table>

- 1-yr
- 3-yr
- 5-yr
- 10-yr
- 15-yr

**China onshore bonds**

### China has better risk adjusted returns over most periods

<table>
<thead>
<tr>
<th>Risk adjusted annualised return</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.7</td>
</tr>
<tr>
<td>1.5</td>
</tr>
<tr>
<td>1.3</td>
</tr>
<tr>
<td>1.1</td>
</tr>
<tr>
<td>0.9</td>
</tr>
<tr>
<td>0.7</td>
</tr>
<tr>
<td>0.5</td>
</tr>
<tr>
<td>0.3</td>
</tr>
<tr>
<td>-0.1</td>
</tr>
</tbody>
</table>

- 1-yr
- 3-yr
- 5-yr
- 10-yr
- 15-yr

**China onshore bonds**

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Benefits of adding Asian bonds

Adding Asian bonds to investment portfolios

- **Asian fixed income can potentially offer diversification for a global portfolio.** Asian economies are in different credit cycles as compared to developed markets and have low correlation of spread movements versus other regions. Meanwhile the risk return profile of a portfolio can be enhanced with Asian bonds, as Asian bonds have achieved better risk adjusted returns over various periods.

- **Investment in Asian local currency bonds can offer investors with more drivers of return.** In addition to credit and interest rates, currency exposure is another contribution to targeting alpha.

- **Investing in single country funds, such as Chinese bonds, can potentially capture more specific opportunities.** Historical data since 2004 shows that Chinese onshore bonds has generated an additional 59% of cumulative returns versus global bonds. This was achieved with lower volatility as well.

- **Using Asian fixed income to enhance strategies:** Investors looking for regular income can enhance their income strategy by adding high income Asian bonds. A high income Asian bond strategy tends aims to provide investors an investment option for yield enhancement without going fully into high yield.

### Add 20% Asian dollar credit to global bond portfolio

- **Annualised return (%)**
  - 0.8
  - 1.5
- **Annualised volatility (%)**
  - 4.6
  - 3.8
- **Risk adjusted annualised return**
  - 0.16
  - 0.40

**Bloomberg Barclays Global Aggregate USD**

**20% Asian credit + 80% Bloomberg Barclays Global Aggregate**

### Add 20% Asian local currency bonds to global bond portfolio

- **Annualised return (%)**
  - 0.8
  - 1.1
- **Annualised volatility (%)**
  - 4.6
  - 4.0
- **Risk adjusted annualised return**
  - 0.16
  - 0.28

**Bloomberg Barclays Global Aggregate USD**

**20% Asian local currency bonds + 80% Bloomberg Barclays Global Aggregate**

Simulated results do not represent actual returns and should not be seen as an indication of future returns. Source: Barclays Bloomberg Global Aggregate Total Return Index USD unhedged, JACI Total Return Index, HSBC Global Asset Management, for the past 5 years as of 30 April 2019. *Investment involves risk and past performance is not indicative of future performance.* For illustrative purposes only.

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## Asian Fixed Income - AUM of USD 80.7 billion

<table>
<thead>
<tr>
<th>Capability</th>
<th>AUM (USD)</th>
<th>Investment universe</th>
<th>Launch date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia Credit</td>
<td>9.2 billion</td>
<td>• Asian USD sovereign, quasi-sovereign and corporate bonds (IG and HY)</td>
<td>1996</td>
</tr>
<tr>
<td>Asia High Yield</td>
<td>991 million</td>
<td>• Asian USD sovereign, quasi-sovereign and corporate bonds (primarily HY)</td>
<td>2011</td>
</tr>
<tr>
<td>Asian Local Currencies</td>
<td>137 million</td>
<td>• Local currency Asian sovereign, quasi-sovereign and corporate bonds</td>
<td>2011</td>
</tr>
<tr>
<td>China fixed income (onshore &amp; offshore)</td>
<td>768 million</td>
<td>• China government and corporate bonds (denominated in CNY, CNH, and USD)</td>
<td>2008</td>
</tr>
<tr>
<td>India Fixed Income</td>
<td>25 billion</td>
<td>• India government and corporate bonds (denominated in INR and USD)</td>
<td>2002</td>
</tr>
<tr>
<td>Indonesia Fixed Income</td>
<td>277 million</td>
<td>• Indonesia government and non-government bonds (denominated in IDR and USD)</td>
<td>2010</td>
</tr>
<tr>
<td>HKD Bond</td>
<td>30.2 billion</td>
<td>• Government and corporate bonds denominated in HKD</td>
<td>2004</td>
</tr>
<tr>
<td>SGD Bond</td>
<td>1.3 billion</td>
<td>• Government and corporate bonds denominated in SGD • Asian bonds hedged into SGD</td>
<td>2005</td>
</tr>
</tbody>
</table>

Source: HSBC Global Asset Management, as of 31 March 2019
HSBC Global Asset Management
Over 20 years in managing Asian bonds

<table>
<thead>
<tr>
<th>Experienced investment teams with a strong track record dating back to 1996 for Asian bonds</th>
<th>Wide range of Asian fixed income products, with strong performance and attractive returns</th>
<th>Strong global investment platform across geographies</th>
</tr>
</thead>
<tbody>
<tr>
<td>A well resourced, stable and award winning team</td>
<td>A robust investment process built on solid proprietary research</td>
<td>Embedded into the strong compliance and governance framework of the HSBC group</td>
</tr>
</tbody>
</table>

Strong global investment platform and operations supports local investment teams

- **USD179.2bn** fixed income assets under management
- Hubs in the major fixed income markets
- **171** Fixed income investment professionals
- **44** Credit analysts
- **13** Investment strategists

Source: HSBC Global Asset Management as at 31 March 2019.
Asian fixed income and related publications

**Articles**

**China fixed income: Going whole hog on China bonds**

One-on-one interview
China fixed income: Going whole hog on China bonds in 2019

January 2019

**Asia credit update: An expanding opportunity set**

Asia credit update
An expanding opportunity set

March 2019

**Asian high yield strategy: Positioning for the win**

One-on-one interview
Asian high yield strategy: Positioning for the win

**Brochures**

**The dragon enters: Inclusion of onshore China bonds in Bloomberg Barclays**

**China in charts: How consumption and innovation are transforming China**

**Advantage India: The Un realised Opportunity**

**Videos**

**A chance to get ahead: Allocating to onshore Chinese bonds**

**Adding value through ESG (Asia in focus)**

For illustrative purposes only.
The value of investments and any income from them can go down as well as up and investors may not get back the amount originally invested.

- Exchange rate risk: Investing in assets denominated in a currency other than that of the investor's own currency perspective exposes the value of the investment to exchange rate fluctuations.

- Liquidity risk: Liquidity is a measure of how easily an investment can be converted to cash without a loss of capital and/or income in the process. The value of assets may be significantly impacted by liquidity risk during adverse market conditions.

- Emerging market risk: Emerging economies typically exhibit higher levels of investment risk. Markets are not always well regulated or efficient and investments can be affected by reduced liquidity.

- Derivative risk: The use of derivatives instruments can involve risks different from, and in certain cases greater than, the risks associated with more traditional assets. The value of derivative contracts is dependent upon the performance of underlying assets. A small movement in the value of the underlying assets can cause a large movement in the exposure and value of derivatives. Unlike exchange traded derivatives, over-the-counter (OTC) derivatives have credit and legal risk associated with the counterparty or the institution that facilitates the trade.

- Operational risk: The main risks are related to systems and process failures. Investment processes are overseen by independent risk functions which are subject to independent audit and supervised by regulators.

- Concentration risk: Funds with a narrow or concentrated investment strategy may experience higher risk and return fluctuations and lower liquidity than funds with a broader portfolio.

- Interest rate risk: As interest rates rise debt securities will fall in value. The value of debt securities is inversely proportional to interest rate movements.

- Derivative risk (leverage): The value of derivative contracts depends on the performance of an underlying asset. A small movement in the value of the underlying can cause a large movement in the value of the derivative. Over-the-counter (OTC) derivatives have credit risk associated with the counterparty or institution facilitating the trade. Investing in derivatives involves leverage (sometimes known as gearing). High degrees of leverage can present risks to sub-funds by magnifying the impact of asset price or rate movements.

- Emerging market fixed income risk: Emerging economies typically exhibit higher levels of investment risk. Markets are not always well regulated or efficient and investments can be affected by reduced liquidity, a measure of how easily an investment can be converted to cash without a loss of capital, and a higher risk of debt securities failing to meet their repayment obligations, known as default.

- High yield risk: Higher yielding debt securities characteristically bear greater credit risk than investment grade and/or government securities.

- Contingent Convertible Security (CoCo) risk: Hybrid capital securities that absorb losses when the capital of the issuer falls below a certain level. Under certain circumstances CoCos can be converted into shares of the issuing company, potentially at a discounted price, or the principal amount invested may be lost.
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