

# HSBC Strategic Income Fund

July 2020

## Spotlight Report

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### Achieving consistent income in unsettled markets

Facing some of the most volatile market conditions in recent history the funds flexible investment approach allowed it to weather the storm better than most. The investment team's decisive positioning both in the run up to the volatility in March as well as through the subsequent rebound has helped the fund navigate a challenging market environment where it was able to limit the downside in the sell off and take advantage of the rally.

- ◆ We came into 2020 defensively positioned with a net credit exposure of 51% as we expected volatility and market weakness from valuations that were at expensive levels. We expressed our defensiveness mainly through a short position in US IG which allowed us to take a defensive credit positioning while maintaining the exposure to the more attractive yield of the High Yield allocation.
- ◆ Moving through Feb and into March, we hedged positions within HY as the overall market sentiment brought the funds net credit exposure down to 44%.
- ◆ As markets stabilized and started to retrace losses in late March we started to reduce our hedges increasing credit exposure to take advantage of the market rally.
- ◆ By mid-April we had removed all hedges and reduced cash exposure as the rally gathered momentum bringing the overall credit exposure to 95%.
- ◆ Now at the end of June we have again reduced credit exposure down to 85%. This was mainly through CDX on US High Yield given tighter valuations following the recent rally and uncertainty regarding potential COVID-19 flare ups.

With the rapid rebound of risk assets valuations have come in for both Investment Grade and High Yield. The IG market remains firmly supported by the positive technical of the Fed's backstop which should continue to help the market digest record amounts of new issuance and see spreads grind tighter barring any negative news flow should there be a setback in the recovery. High Yield now appears fairly valued with the market differentiating between those sectors that are most exposed to the shocks of the COVID-19 pandemic and those that are less, which has resulted in a divergence in valuations.

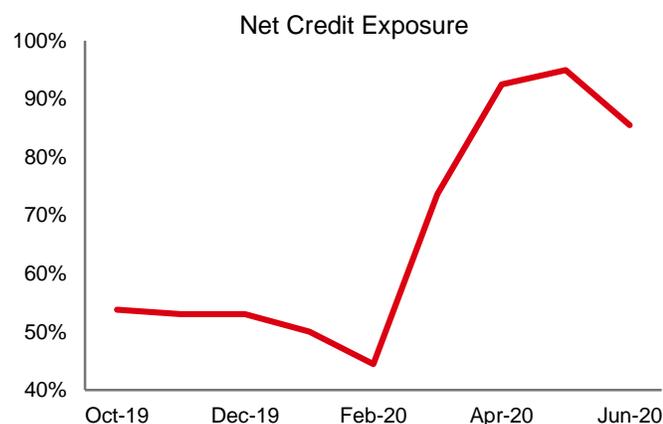
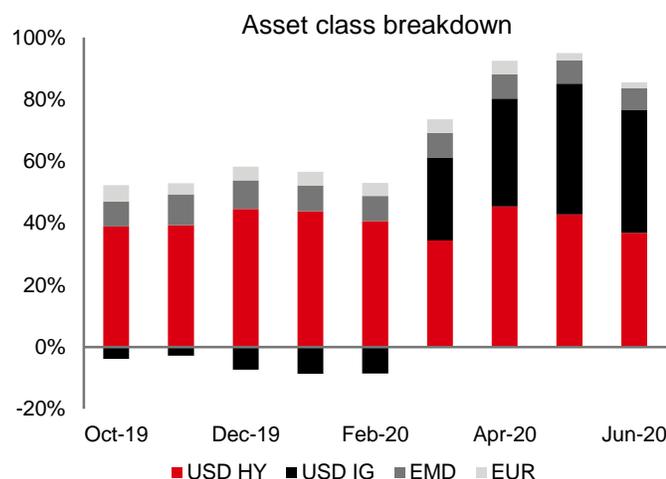
In this market context, we are looking for issuers in industries which have been less impacted by the Covid-19 pandemic as well as those which have the liquidity to survive the current shock and our expectation of a U-shaped recovery. We are balancing investing in companies that are more defensive but with lower yields with those that may be being currently impacted by COVID-19 but have strong balance sheets or access to liquidity and are offering higher yields and potential total returns.

Total returns (%)	As of June 30, 2020			
	June 2020	YTD	1-yr	Since Inception
Class I	2.70	1.76	5.04	4.71
Bloomberg Barclays U.S. Aggregate Bond Index	0.63	6.14	8.74	4.37

### Fund facts

<b>Portfolio Management</b>	Rick Liu Sr. Portfolio Manager
<b>Benchmark</b>	Bloomberg Barclays US Aggregate Bond Index
<b>Inception date</b>	July 14, 2015
<b>Bloomberg ticker</b>	Class A: HBIAX Class I: HBIIIX
<b>Expense Ratio<sup>1</sup> (gross/net)</b>	Class A: 2.76% / 1.05% Class I: 2.41% / 0.70%

1. Net expense ratios reflect fee waivers contractually agreed to through March 1, 2021. See page 2 for more information.



Source: HSBC Global Asset Management as of June 30, 2020. Fund inception date is July 14, 2015. **Past performance does not guarantee future results. The performance data quoted represents past performance and current returns may be lower or higher. The investment return and principal value will fluctuate so that an investor's shares, when redeemed may be worth more or less than the original cost. To obtain performance data current to the most recent month-end and other information, please call 1-800-782-8183 or visit <https://www.global.assetmanagement.hsbc.com>.** Returns include the reinvestment of all dividends, income and capital gain distributions. Returns greater than one year are annualized and returns less than one year are cumulative. The Fund's performance is measured against the **Bloomberg Barclays U.S. Aggregate Bond Index**, an unmanaged broad-based index that measures the investment grade, U.S. dollar-denominated fixed-rate taxable bond market and includes Treasuries, government-related and corporate securities, mortgage-backed securities, asset-backed securities, and collateralized mortgage-backed securities. The performance for the index does not reflect the deduction of expenses associated with a mutual fund, such as investment management and fund accounting fees. The Fund's performance reflects the deduction of fees for these value-added services. Investors cannot invest directly in an index.

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### Important Information

1. Expense ratios reflect those reported in the prospectus January 31, 2019 prospectus. HSBC Global Asset Management (USA) Inc., the Fund's investment adviser, entered into a contractual expense limitation agreement with the Fund (effective until March 1, 2021) that limits total fund expenses (excluding interest, tax, brokerage commissions, extraordinary expenses and estimated indirect expenses attributable to the fund's investments in investment companies) to an annual rate of: Class A: 1.05%, Class I: 0.70%. Performance reflects the fee waivers that have been in effect over the applicable periods as well as any periodic expense reimbursements made. Without such waivers and reimbursements, returns would be lower.

On April 1, 2019, the HSBC Global High Income Bond Fund became the HSBC Strategic Income Fund and amended its strategy to invest primarily in US higher-yielding securities with the capacity to invest opportunistically in non-US fixed income, loans, and asset-backed securities. Fund performance is now shown against the **Bloomberg Barclays U.S. Aggregate Bond Index**, a broad-based index that measures the investment grade, US dollar-denominated fixed-rate taxable bond market and includes Treasuries, government-related and corporate securities, mortgage-backed securities, asset-backed securities, and collateralized mortgage-backed securities. Prior to April 1, 2019, Fund performance was measured against the **Bloomberg Barclays High Income Bond Composite Index**, comprised of the following indices: Bloomberg Barclays USD Unhedged Emerging Markets Aggregate Index (35%), Bloomberg Barclays US High Yield Ba Index (15%), Bloomberg Barclays US Credit Baa Index (20%), Bloomberg Barclays EuroAgg Corporate Baa USD Hedged Index (15%), and Bloomberg Barclays Pan Euro HY (Euro) BB Rating Only USD Hedged Index (15%). Indexes are unmanaged and their returns assume reinvestment of all distributions and do not reflect fees, expenses, or taxes. You cannot invest directly in an index.

**Benchmark definitions:** **USD HY: ICE BofAML US High Yield Index** tracks the performance of below investment grade, but not in default, US dollar-denominated corporate bonds publicly issued in the US domestic market, and includes issues with a credit rating of BBB or below, as rated by Moody's and S&P. **USD IG: ICE BofAML US Corporate Index** tracks the performance of US dollar denominated investment grade corporate debt publicly issued in the US domestic market. A Credit Default Swap Index is a credit derivative used to hedge credit risk or to take a position on a basket of credit entities.

**EMD: ICE BofAML US Emerging Markets External Debt Sovereign & Corporate Plus Index** tracks the performance of US dollar-denominated emerging markets government debt publicly issued in the US domestic market. **EUR HY: ICE BofAML Euro High Yield Index** tracks the performance of Euro denominated below investment grade corporate debt publicly issued in the euro domestic or eurobond markets. **EUR IG: ICE BofAML Euro Corporate Index** tracks the performance of Euro denominated investment grade corporate debt publicly issued in the euro domestic or eurobond markets.

**Loans: The S&P/LSTA Leveraged Loan Index** is a market value-weighted index designed to measure the performance of the U.S. leveraged loan market based upon market weightings, spreads and interest payments. **ABS: ICE BofAML US ABS & CMBS Index** tracks the performance of US dollar denominated investment grade fixed and floating rate asset backed securities and fixed rate commercial mortgage backed securities publicly issued in the US domestic market.

All portfolio data is as of June 30, 2020 and may change. The information provided should not be considered a recommendation to purchase or sell a particular security, currency or securities in the sectors shown above. There is no assurance that the securities mentioned will remain in the Fund's portfolio or that securities sold have not been repurchased. Portfolio data are based on records maintained by the Fund's service providers. This data is unaudited, has not been taken from the Fund's official books and records. Care has been taken to ensure the accuracy of the information, however, HSBC Global Asset Management and its affiliates, Foreside Distribution Services, and the Fund accept no responsibility for any errors or omissions.

**Investment Risks:** There is no assurance that a portfolio will achieve its investment objective or will work under all market conditions. The value of investments may go down as well as up and you may not get back the amount originally invested. Portfolios may be subject to certain additional risks, which should be considered carefully along with their investment objectives and fees. Investments in **foreign markets** entail special risks such as currency, political, economic, and market risks. The risks of investing in **emerging markets** geographies are greater than the risks generally associated with foreign investments. **Fixed income securities** are subject to credit and interest rate risk. Credit risk refers to the ability of an issuer to make timely payments of interest and principal. Interest rate risk refers to fluctuations in the value of a fixed income security resulting from changes in the general level of interest rates. In a declining interest rate environment, the portfolio may generate less income. In a rising interest rate environment, bond prices may fall. Investments in **high-yield securities** (commonly referred to as "junk bonds") are often considered speculative investments and have significantly higher credit risk than investment-grade securities. The prices of high-yield securities, which may be less liquid than higher rated securities, may be more vulnerable to adverse market, economic or political conditions. **Derivatives** may be riskier than other types of investments and could result in losses that significantly exceed the Fund's original investment. **Convertible securities** entail risks associated with equity securities (value can fluctuate based on changes in a company's financial condition or overall market conditions), investments in convertible securities are subject to the risks associated with fixed income securities. **Loan-related investments** are subject to various risks, including the risk that the investment is or may become illiquid or that the collateral securing the loan may decline in value.

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Past performance is no guarantee of future results.

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**The minimum initial investment for class I shares is \$1 million; however, it may be modified for certain financial intermediaries who submit trades for eligible investors.**

**This literature must be preceded or accompanied by an effective prospectus for the HSBC Funds. Investors should consider the investment objectives, risks, charges, and expenses of the investment company carefully before investing. The prospectus contains this and other important information about the investment company. For clients of HSBC Securities (USA) Inc., please call 800-662-3343 opt. 4 for more information. For other investors and prospective investors, please call the Funds directly at 1-800-782-8183 or visit <https://investorfunds.us.hsbc.com>. Investors should read the prospectus carefully before investing or sending money. All decisions regarding the tax implications of your investment(s) should be made in connection with your independent tax advisor.**

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