HSBC Emerging Markets Debt Fund

Monthly Commentary

Total Return (%)	Fund performance ending March 31, 2018							Fund performance ending December 31, 2017		
	1 Month	3 Month	YTD	1 Year	3 Years	5 Years	Since Inception	1 Year	5 Years	Since Inception
Class A without sales charge	0.37%	0.91%	0.91%	7.56%	5.78%	3.71%	5.75%	10.61%	3.11%	5.83%
Class A with maximum sales charge (4.75%)	-4.41%	-3.88%	-3.88%	2.42%	4.07%	2.70%	5.01%	5.38%	2.11%	5.06%
Class I	0.29%	0.96%	0.96%	8.00%	6.15%	4.06%	6.11%	11.02%	3.46%	6.19%
Composite Benchmark*	0.70%	1.31%	1.31%	8.11%	5.53%	1.63%	3.40%	11.31%	4.13%	6.71%
JP Morgan Emerging Markets Bond Index Global (EMBI Global)	0.38%	-1.78%	-1.78%	3.34%	5.48%	3.86%	5.93%	9.32%	3.75%	6.43%

Past performance is no guarantee of 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 1-888-936-4722 or visit https://investorfunds.us.hsbc.com.
Inception date: April 07, 2011. Returns greater than one year are annualized. Returns include the reinvestment of dividends and income. Performance for other share classes will vary. The performance above reflects any fee waivers that have been in effect during the applicable periods as well as any expense reimbursements that have periodically been made. Absent such waivers and reimbursements, returns would have been lower.

Expense Ratio[1]	Class A	Class I
Gross	2.04%	1.69%
Net	0.85%	0.50%

[1] The Funds' investment adviser has entered into a contractual expense limitation agreement with the Funds under which it will limit total expenses of the Funds (excluding interest, tax, brokerage commissions, extraordinary expenses and estimated indirect expenses attributable to the Funds' investments in investment companies) to an annual rate of 0.85% for Class A Shares and 0.50% for Class I Shares. The expense limitation agreement is effective until March 1, 2020.

Performance

- The Emerging Markets Debt Fund Class A shares returned 0.37% , while its benchmark returned 0.70% .Class I shares returned 0.29 % for the period.

Attribution and Positioning

- Emerging markets debt assets produced positive performance in March with hard currency assets benefitting from a fall in US Treasury yields while local assets were helped by further US dollar weakening over the month.
- Within hard currency investment grade bonds, the largest contributions to relative returns came from the strategy's overweight to quasi-sovereign issues in Mexico, buoyed by positive NAFTA developments. Other meaningful contributions came from underweights to lower beta, countries with already tight spreads including China, Oman, and Malaysia, which underperformed the benchmark over the period. However, some of these gains were partially offset by underperformance from the underweight to the Philippines where a rebound in exports and a growth in remittance payments were positive developments for the country and yields compressed.
- Within high yield, the largest contribution to relative returns stemmed from the underweight to Russia as increased political risks has seen sovereign spread levels edge upwards. Other meaningful performance stemmed from the overweight to Kenya where bond prices benefitted from an uplift in PMI data. However, these gains were more than offset by underperformance from the overweights to Ecuador and Turkey. In Ecuador, yields increased at the start of the month following the surprise appointment of new finance minister Elsa Viteri, raising concerns about future spending levels. Meanwhile in Turkey, an uptick in inflation and an increasing current account deficit has raised investor concerns. Other meaningful underperformance stemmed from the underweight to Lebanon, as well as a security selection in Venezuela.
- In local debt the largest contributor to relative returns was the strategy's overweight to Mexican local rates and currency as falling inflation and positive progress on NAFTA saw assets rally. Elsewhere, the overweight to Colombian local rates also generated outperformance as assets rallied on the back of improved oil prices and lower inflation. The underweight to the Chilean peso also contributed to gains as a fall in global copper prices induced a weakening in the currency.
- However, these gains were more than offset by underperformance from the overweight position in Turkey local rates and currency as an uptick in inflation and an increasing current account deficit has raised investor concerns. The underweight to the South African rand also detracted as positive economic data, including improved manufacturing PMIs, saw the currency continue to strengthen. Further underperformance stemmed from an overweight to the Russian ruble detracted as increased geopolitical risks and the prospect of further sanctions prompted a sell-off in Russian assets.
- Over the month, we have trimmed some of our exposures in the more expensive parts of the market, including Croatia, Chile and Hungary, in favor of more attractive quasi-sovereign names in Mexico as well as adding to more diversified Frontier names e.g. Senegal. At the end of the month, the strategy finished with a small underweight to duration -0.19 years and spread duration -0.03 years versus benchmark.
- In local rates, we have altered our positioning, removing our overweight Poland, underweight Hungary pair while reducing exposure to Colombian local rates. We have also added exposure in Mexico local rates given the improved short-term outlook. At the end of the month we continue to be underweight local rate duration at -0.37 years.
- At the end of the month, the portfolio is 2% net long EM (emerging markets) currencies with overweight exposures to more attractively valued, higher yielding currencies such as Brazilian real, Indonesian rupiah, Russian ruble and Turkish lira, and underweight positions to more expensive parts of the market including the Euro, Hungarian forint and the South African rand.

Market Review

Despite an increase in volatility across global markets in March, emerging market debt (EMD) weathered the storm reasonably well, posting positive performance by the end of the month. Much of the news was dominated by Protectionist action from the Trump administration and the beginning of tit-for-tat tariff impositions between the US and China. Global stock markets wobbled amid concerns that a trade war could develop, prompting a sell-off in global equity markets and an increase in corporate bond yields.

A 4.25% fall in US 10 Year Treasury yields over the month (to 2.74%) reflected the concern that any escalation in events would impinge future growth. Flows into the asset class were similarly disrupted with the risk-off sentiment seeing a slight reversal in EM hard currency, while local currency flows remained relatively stable. As a result, EM spreads widened from 311 bps to 326 bps while EM local debt yields ticked down from 6.08% to 6.00%. Relative US dollar weakening of -0.71% (DXY Index) provided further support to EM local assets over the month.

In other news, March's much anticipated US rate hike was accompanied by an upgrading to the economic forecast with expectations of at least one further increase expected within the next two years. A flurry of positive data, including manufacturing PMIs and payrolls were commensurate with this positive outlook.

Elsewhere, increasing tensions with the West has overshadowed some of the progress made on the economic recovery in Russia. The diplomatic dispute and imposition of sanctions has seen Russian risk assets sell-off, unwinding some of the momentum made earlier in the year. Meanwhile in Latin America, Mexican assets have been buoyed by a more positive outlook for NAFTA following comments from White House advisor Peter Navarro, pointing to the possibility of a more conciliatory outcome.

By the numbers

- Emerging market hard currency debt (which is denominated in convertible currencies of leading economies) ended March with 0.38 %, as measured by the JPMorgan Emerging Market Bond Index Global (JPM EMBIG).
- Hard-currency corporate bonds returned -0.26% in , as measured by the JPMorgan Corporate Emerging Markets Bond Index (CEMBI) Diversified.
- Emerging market local bonds returned 1.00%, as measured by the JPMorgan Government Bond Index Emerging Market Global Diversified (JPM GBI-EM GD).
- The local currency index, JPMorgan Emerging Market Local Bond Index, (JPM ELMI+) finished 0.69 in March.

Outlook

Emerging markets continue to draw support from the global 'balanced expansion' as the uplift in trade activity has strengthened the economic and fiscal fundamentals of many emerging economies.

In the last couple of years, inflationary dynamics between EM (Emerging markets) and DM (Developed Markets) have continued on divergent paths. Inflation-targeting monetary policy in EM has induced a downward inflationary trend, while in DM a pickup in growth is starting to fuel a gradual rise in cyclical inflation. This has resulted in a meaningful real yield differential to developed markets.

The outlook for EM corporates is equally positive given the repair in EBITA(Earnings before interest, taxes or adjustments) from the lows of 2015, and generally lower levels of leverage particularly when compared to US high yield counterparts. This is reflected in recent PMI (Purchasing Manager Index) scores for example, showing that recent confidence in DM countries has had a positive spillover effect for many emerging economies.

However, risks to this environment could emanate from a more rapid increase in inflation in developed markets, triggering more aggressive rate hikes than what is currently being priced into the market. Furthermore, any escalation in protectionism, vis-à-vis trade tariffs, could result in disruption to global trade activity although given the integrated nature of the global economy, this is currently a low probability.

Despite the recent bouts of volatility, EMD investor flows are so far positive for the year ($20.9 billion) as global investors continue to be drawn to the compelling yield differential, strong fundamental story and period of relatively low volatility. As such, EM (Emerging markets) valuations continue to be historically tight exposing EM assets to short term risks such as increases in US Treasury yields or US dollar strengthening as well as more idiosyncratic events e.g. Russia. However, it is important that we continue to position ourselves dynamically to opportunistically add risk at more attractive valuations as these pockets of volatility occur.

Risks to Consider

- The value of investments may go down as well as up and you may not get back the amount originally invested. There is no assurance that a portfolio will achieve its investment objective or will work under all market conditions. Portfolios may be subject to certain additional risks, which should be considered carefully along with their investment objectives and fees.
- Past performance is no guarantee of future results.
- Fixed income is 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 that result from changes in the general level of interest rates. In a declining interest rate environment, a portfolio may generate less income. In a rising interest-rate environment, bond prices 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 volatile and more vulnerable to adverse market, economic or political conditions.
- Investments in foreign markets involve risks such as currency rate fluctuations, potential differences in accounting and taxation policies, as well as possible political, economic, and market risks. These risks are heightened for investments in emerging markets which are also subject to greater illiquidity and volatility than developed foreign markets.
- Convertibles are subject to the risks of equity securities when the underlying stock price is high relative to the conversion price (because more of the security’s value resides in the conversion feature); they are subject to the risks of debt instruments when the underlying stock price is low relative to the conversion price (because the conversion feature is less valuable). A convertible bond is not as sensitive to interest rate changes as a similar non-convertible debt instrument, and generally has less potential for gain or loss than the underlying equity security.
- Derivatives can be illiquid, may disproportionately increase losses and may have a potentially large negative impact on performance.
- Non-diversification occurs when portfolio assets are invested in fewer securities, industries, currencies or countries than in diversified investment portfolios, Non-diversification increases risk because each investment has a greater effect on portfolio performance and can also be affected by single economic, political or regulatory occurrences.

Benchmark

*The Fund implemented its current investment strategy effective close of April 7, 2017. The performance of the Fund for periods prior to April 7, 2017 is not representative of the Fund’s current investment strategy and the relevant benchmark for the periods prior to close of April 7, 2017 was EMBI Global. For periods after April 7, 2017, the relevant benchmark is the Composite Benchmark, comprised of the JP Morgan Emerging Markets Bond Index Global (50%) and the JP Morgan Government Bond Index - Emerging Markets Global Diversified (50%). The JP Morgan Emerging Markets Bond Index Global tracks total returns for United States dollar denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, Eurobonds and local market instruments. The JP Morgan Government Bond Index - Emerging Market Global Diversified is a comprehensive global emerging markets fixed income index, and consists of regularly traded, liquid fixed-rate, domestic currency government bonds to which international investors can gain exposure.

J.P. Morgan Corporate Emerging Markets Bond Index (CEMBI) Diversified is a uniquely weighted version of the CEMBI index. It limits the weights of those index countries with larger corporate debt stocks by only including a specified portion of these countries’ eligible current face amounts of debt outstanding. The CEMBI Diversified results in well-distributed, more balanced weightings for countries included in the index. The countries covered in the CEMBI Diversified are identical to those covered by the CEMBI.

J.P. Morgan GBI-EM Diversified Index provides a measure of local currency denominated, fixed rate, government debt issued in emerging markets. Weightings among the countries are more evenly distributed within the diversified index compared to it’s three main composite indices consisting of the GBI-EM, GBI EM Global, and GBI EM Broad indices.

J.P. Morgan ELMI+ Index tracks total return for local denominated money market instruments in the emerging markets. The Index employs a liquidity sensitive weighting scheme, which uses exports plus imports as a base.
J.P. Morgan EMBI Global Diversified is a comprehensive global emerging markets fixed income index, and consists of regularly traded, liquid fixed-rate, domestic currency government bonds to which international investors can gain exposure.

Index returns assume reinvestment of all distributions and not reflect fees or expenses. You cannot invest directly in an index.

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