HSBC Emerging Markets Debt Fund

Monthly Commentary

Total Return (%)	Fund performance ending September 30, 2018							Fund performance ending June 30, 2018		
	1 Month	3 Month	YTD	1 Year	3 Years	5 Years	Since Inception	1 Year	5 Years	Since Inception
Class A without sales charge	2.51%	-0.74%	-7.34%	-6.93%	3.93%	3.14%	4.16%	-3.61%	3.40%	4.42%
Class A with maximum sales charge (4.75%)	-2.39%	-5.44%	-11.74%	-11.38%	2.25%	2.14%	3.48%	-8.20%	2.40%	3.71%
Class I	2.63%	-0.64%	-7.09%	-6.61%	4.28%	3.51%	4.52%	-3.19%	3.74%	4.78%
Composite Benchmark*	2.18%	0.03%	-5.76%	-5.10%	5.51%	1.49%	2.18%	-2.31%	1.53%	2.26%
JP Morgan Emerging Markets Bond Index Global (EMBI Global)	1.77%	1.87%	-3.46%	-2.94%	5.70%	4.63%	5.28%	-2.45%	4.42%	5.20%

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 2.51% in September and outperformed its benchmark, which returned 2.18% .Class I shares returned 2.63% for the period.

Attribution and Positioning

- Risk sentiment returned in September and emerging markets debt (EMD) assets rebounded as idiosyncratic risks eased and flows returned to positive territory. The fund's performance was largely driven by the allocation to hard currency, where an overweight to the high yield (HY) segment benefitted from a significant compression in spreads.

- A large contributor to returns in HY was the overweight to Turkey as bond prices rallied following the central bank's increasing its key one-week repo rate by 625 basis points (bps) to 24%. In addition, the unveiling of the Medium Term Program, focusing on macro stabilization, contributed to improved market confidence. This and spreads tightening 168 bps contributed to a 10.99% return in September. The overweight in Argentina was also a top performer as bond's rebound after the IMF extended its credit assistance, demonstrating its commitment to the country's recovery. The underweight to more expensive investment grade (IG) names also contributed to performance as the already-tight spreads left little room for further compression. Specifically, the underweights to China and the Philippines supported to relative returns.

- Within the local debt, the overweight to Turkey was again the largest contributor with local yields and the Turkish lira recovering some of the losses from previous months. An underweight to Czech local rates also helped as local yields continue to rise amid inflationary pressures and the potential rate hikes. The overweight to the Colombian peso contributed to relative returns, benefitting from a rise in global oil prices and low inflation. However, some of these gains were partially offset by overweights to mid-beta currencies, which have lagged markets following August's emerging markets (EM) sell-off.

- In hard currency, we added risk, moving to +0.14 years duration and +0.40 years spread duration versus the benchmark. This has been done by tactically adding exposure in Argentina and Turkey during the sell-off at the beginning of the month.

- In local rates, we increased the underweight to local duration from -0.43 years to -0.56 years, trimming exposure to Indonesian local rates and in Brazil. At the end of the month, we hold an overweight position in Turkey and underweight position in lower-yielding countries, including Czech Republic, Chile, Poland and Thailand, and in mid-beta countries with headwind risks, such as Colombia, Brazil and South Africa.

HSBC Global Asset Management

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All decisions regarding the tax implications of your investment(s) should be made in connection with your independent tax advisor.

Market Review

Risk sentiment returned in September and EMD assets rebounded as idiosyncratic risks eased and flows returned to positive territory. In the hard currency space, the JP Morgan EMBI Global returned 1.77% in September as spreads tightened 38 basis points (bps). HY) outperformed given wider valuations and more room for spread compression as well as less sensitivity to the rise in US Treasury yields. Within the IG portion, the marginal tightening in spreads was largely offset by the rates component given the sensitivity to the spike in US 10Y Treasuries from 2.86% to 3.09% in September. In local debt, the JP Morgan GBI-EM Global Diversified Index was up 2.59% and the local currency JP Morgan ELMI+ index was up 1.09% in the month, with high-yielding countries generating the majority of the return.

The two largest performance drivers in the month were Turkey and Argentina. The Turkish central bank aggressively increased the overnight repo rate by 625bps, which exceeded market expectations and helped restore some credibility to the embattled central bank. Meanwhile, in Argentina, the central bank raised of rates to 60.00% as the IMF increased their program to USD57 billion, contributing to a more constructive view on the country’s future.

EM bond inflows surged to their highest level since February with hard currency funds receiving the majority of the flows. Cumulative inflows to EM bonds continue to be in positive territory and have reached USD21.7 billion year-to-date.

By the numbers

- Emerging market hard currency debt (which is denominated in convertible currencies of leading economies) ended September with 1.77%, as measured by the JPMorgan Emerging Market Bond Index Global (JPM EMBIG).
- Hard-currency corporate bonds returned 0.94% in September, as measured by the JPMorgan Corporate Emerging Markets Bond Index (CEMBI) Diversified.
- Emerging market local bonds returned 2.59%, 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 1.09% in September.

Outlook

2018 has seen a significant sell-off across EMD assets as a number of negative factors prompted a reversal in risk sentiment including rising US Treasury yields, a stronger US dollar and heightened global trade tensions. Technical pressure exacerbated the negative returns given a heavy primary supply calendar in the first part of the year coupled with mutual fund outflows. As a result, yield and spread levels on EMD assets rose meaningfully and valuations cheapened, resulting in attractive entry points for select assets.

While recent US dollar strength has applied pressure to the asset class, we believe that this is only a temporary correction spurred by a relative weakening in the euro and the “flight to safety” following an uptick in market volatility. The US dollar appears overvalued on a relative basis and the resumption of economic growth in other parts of the world should lead to a reversal of this recent trend. Speculative short USD positioning, as indicated by IMM data, has been completely unwound with the market now net long USD. Therefore, absent a material shift in fundamentals, one should not expect to see a continuation of the trend of US dollar appreciation.

We remain cognizant of the risks emanating from a more rapid increase in inflation in developed markets that could possibly trigger more aggressive rate hikes than what is currently being priced into the market. Furthermore, any escalation in protectionism, in the form of trade tariffs, could result in disruption to global trade although given the integrated nature of the global economy and the deeper political ramifications for the US, we believe that this is currently a low probability. The rise in idiosyncratic risk will also present both challenges and opportunities. In this environment, 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 period prior to close of April 7, 2017 was J.P.Morgan EMBI Global. For the periods after April 7, 2017 the relevant benchmark is the Composite Benchmark. The composite benchmark returns are a blend made up of 50% JPM EMBI Global and 50% JPM GBI-EM Global Diversified rebalanced on a monthly basis from the inception of the fund.
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 Global Diversified Index is a comprehensive global local emerging markets index, and consists of liquid, fixed rate, domestic currency government bonds.

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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