HSBC Emerging Markets Debt Fund

Monthly Commentary

Total Return (%)	Fund performance ending June 30, 2018							Fund performance ending March 31, 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	-2.28%	-7.50%	-6.65%	-3.61%	3.00%	3.40%	4.42%	7.56%	3.71%	5.75%
Class A with maximum sales charge (4.75%)	-6.96%	-11.91%	-11.09%	-8.20%	1.35%	2.40%	3.71%	2.42%	2.70%	5.01%
Class I	-2.27%	-7.39%	-6.50%	-3.19%	3.35%	3.74%	4.78%	8.00%	4.06%	6.11%
Composite Benchmark*	-1.93%	-7.00%	-5.79%	-2.31%	3.22%	1.53%	2.26%	8.11%	1.63%	3.40%
JP Morgan Emerging Markets Bond Index Global (EMBI Global)	-1.00%	-3.51%	-5.23%	-2.45%	4.33%	4.42%	5.20%	3.34%	3.86%	5.93%

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 -2.28%, while its benchmark returned -1.93% .Class I shares returned -2.27% for the period.

Attribution and Positioning

- Emerging Markets Debt (EMD) assets struggled through May as a rise in US Treasury yields and further US dollar strengthening prompted a reversal of investor flows with both hard currency and local debt assets posting negative performance in the month.
- In hard currency, the largest gains came from the underweight to the Middle East, particularly Lebanon, where a combination of rising US dollar strength and increasing geopolitical tensions following the US withdrawal from the Iran deal saw spread levels widen. The overweight to Egypt also helped as a narrowing of the current account deficit, falling inflation and strong Purchasing Managers Index (PMI) data were all positive contributing factors.
- However, these gains were partially offset by underperformance from the underweight in higher quality, low beta countries, including China and the Philippines, which outperformed during this risk-off period. The largest detractor from relative performance, however, was the overweight to Argentina as technical foreign exchange selling pressures caused an overall sell-off in risk assets in May, although a focus on shorter-dated bonds within this environment helped insulate the fund from further losses.
- In local debt, relative gains stemmed principally from the underweight to the South African rand. Disappointing first quarter (Q1) GDP growth data and poor PMI readings saw the local currency unwind some of the gains from the "Ramaphosa rally." Further outperformance was generated from the short position in the euro and underweight to the Hungarian forint as softer European growth data saw relative depreciation in euro-linked currencies versus the US dollar.
- However, these gains were more than offset by underperformance from the overweight to Turkish local rates and currency as a rise in US dollar strength and increasing oil prices put greater pressure on a deteriorating current account, raising investor concerns, and risk assets sold-off. We also saw underperformance from the overweight to the Brazilian real as a rise in political uncertainty, coupled with recent strike action, has seen a sell-off in Brazilian debt. Finally, overweight exposures to mid-beta currencies, including the Colombian peso, hurt relative performance during this period of US dollar strengthening.
- We reduced the duration positioning of the portfolio slightly, trimming more expensive parts of the universe, including China and selectively in Russia, while adding to mid- to higher-yield, higher beta positions, including Indonesia, Argentina and Angola. Consequently, the Fund has reduced duration from -0.17 years to -0.24 years versus the benchmark and spread duration from flat to a small underweight of -0.07 years.
- In local rates, we have added predominantly to Indonesia following a recent rise in local yields. The country offers an attractive yield profile and the economic outlook is strong, particularly as we believe there is some slack in the economy. We have also reduced the underweight to Malaysia following an improvement in the economic outlook. As a result of this addition, local rate duration has marginally increased from -0.46 years to -0.37 years against the benchmark.
- In local currency, we have significantly added exposure following the strengthening of the US dollar, increasing exposures in the Indonesian rupiah, Malaysian ringgit, Thai Baht, Colombian peso and Turkish lira. We have also added a short euro position following disappointing growth data. As a result of these changes, we have moved to a 5% net long emerging markets (EM) currency.

HSBC Global Asset Management

Market Review

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By the numbers

- Emerging market hard currency debt (which is denominated in convertible currencies of leading economies) ended June with -1.00%, as measured by the JPMorgan Emerging Market Bond Index Global (JPM EMBIG).
- Hard-currency corporate bonds returned -0.37% in June, as measured by the JPMorgan Corporate Emerging Markets Bond Index (CEMBI) Diversified.
- Emerging market local bonds returned -2.86%, 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 -1.63% in June.

Outlook

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

In the last couple years, inflationary dynamics between EM and developed markets (DM) have continued on divergent paths. Inflation-targeted 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 between EM and DM.

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

However, risks in this environment could emanate from a more rapid increase in inflation in DM, triggering more aggressive rate hikes than what is currently being priced into the market. Furthermore, any escalation in protectionism, as seen with trade tariffs, could result in disruption to global trade. Although, given the integrated nature of the global economy, we believe that this is currently a low probability.

EMD investor flows still stand at a positive for the year ($21.3 billion) as global investors continue to be drawn to the compelling yield differential, stronger fundamentals and generally lower volatility across the asset class. Recent bouts of volatility has led to a significant cheapening in valuations, but short-term macro and idiosyncratic risks remain. 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 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 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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