HSBC Global Asset Management — October 2017

HSBC Emerging Markets Debt Fund

Monthly Commentary

Total Return (%)	Fund performance ending September 30, 2017							Fund performance ending September 30, 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	-1.51%	-0.17%	8.45%	5.29%	4.63%	3.18%	5.66%	5.45%	3.69%	5.99%
Class A with maximum sales charge (4.75%)	-6.22%	-4.87%	3.32%	0.31%	2.94%	2.18%	4.88%	0.46%	2.68%	5.19%
Class I	-1.57%	-0.16%	8.71%	5.57%	4.98%	3.52%	6.02%	5.82%	4.05%	6.36%
Benchmark—50% JP Morgan Emerging Markets Bond Index Global/50% JP Morgan Global Bond Index—Emerging Markets Bond Diversified*	-1.32%	0.24%	9.08%	6.04%	5.59%	4.22%	6.56%	5.88%	4.66%	6.87%

*Prior to April 10, 2017, the funds benchmark consisted of 100% JP Morgan Emerging Markets Bond Index Global.

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.

[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' investment 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, 2018.

Expense Ratio[1]	Class A	Class I
Gross	1.72%	1.37%
Net	0.90%	0.55%

Performance

- The Emerging Markets Debt Fund Class A shares returned -1.51% in October, versus its benchmark, which returned -1.32%. Class I shares returned -01.57% for the period.

Attribution and Positioning

- A pickup in US Treasury yields and US dollar strengthening saw emerging markets debt (EMD) assets struggle in October, most significantly in the local debt space.
- Over the month, positioning in Mexico generated mixed performance. Mexican assets struggled in October as revived discussions around NAFTA negotiations were negatively received and growing popularity of left-wing Presidential candidate Obrador in the most recent polls heightened investor concerns. Consequently, the overweight to local rates hurt relative performance. However, an underweight to hard currency assets and underweight to the Mexican peso offset these losses.
- In Turkey, the ongoing saga with the US on visa permits and an increase in inflation proved to be disruptive, particularly to the banking sector, and Turkish assets sold off. As a result, the overweight to hard currency, local rates and local currency detracted from relative performance.
- In hard currency, another driver of relative performance was the overweight to Kazakhstan as the country performed well on the back of improvements to global oil prices.
- An underweight to Lebanon contributed to performance as increased downgrade risks continue to weigh on the country.
- However, a focus on lower dollar-priced bonds in Venezuela hurt relative as higher dollar-priced bonds performed well with the expectation that the country would commit to its repayment schedule in October.
- In local rates and currencies, the underweight to South Africa contributed to relative performance as yields spiked and its currency depreciated amid news that budget deficit targets may need revision, increasing downgrade risks.
- An underweight to Czech local rates also contributed to relative performance as yields increased following a surprise increase in inflation for October.
- The short currency position to the euro-linked Hungarian forint also helped relative returns as the euro slowly recoiled followings its recent rally.
- As US Treasury yields increased in October, we took the opportunity to add duration to the portfolio, in part by participating in select new issues that came to market. In addition, we reduced the underweight to duration by increasing our holdings in US Treasuries, allowing us to maintain underweight spread duration. Given the risks of US Federal Reserve (Fed) hawkishness and resulting increases in developed market (DM) yields, we remain cautiously positioned, finishing the month with a duration underweight of -0.23 years and spread duration underweight of -0.19 years versus the benchmark.
- In local rates, we made slight adjustments to our positioning, reducing some of the underweight in Mexico local rates and introducing a pair trade, increasing the Poland overweight against an underweight to Hungary as Hungary has less favorable inflation dynamics and a flatter yield curve. At the end of the month, the underweight to local rate duration stayed at -0.29 years versus the benchmark.
- In local currencies, we increased our exposure to mid to higher beta currencies, including the South African rand, Turkish lira and Mexican peso following a depreciation in October. At the end of the month, the fund was relatively flat EM currencies.

HSBC Global Asset Management

Market Review

- US rate volatility increased in October as 10-year US Treasury yields ranged from 2.27% to 2.46%. The spike in volatility, combined with a strengthening US dollar (+1.59% US Dollar Index (DXY)), weighed on emerging market (EM) local debt in October while idiosyncratic country risks generated mixed performance across the asset class.
- A stream of positive economic data in the US quelled concerns of a slowdown following a series of natural disasters with strong third quarter GDP postings, increased manufacturing and consumer confidence and buoyant retail sales all pointing to continued growth momentum. Along with the prospect of future US tax reforms, US Treasury yields and the US dollar surged over the month.
- In China, all eyes were on the 19th Party Congress where President Xi Jinping further consolidated power as his philosophy was enshrined into the constitution. This development not only signaled a continuation in economic policy, but should also ease the implementation of future reforms.
- On the economic front, Chinese trade activity continues to grow with an acceleration in import growth supporting many export nations across Southeast Asia and global commodity exporters.
- The growth in commodities prices was also driven by improvements in global oil prices (CL1 comdty +2.71%) amid geopolitical tensions in the Middle East and a possible extension of OPEC's agreement to curb supply.
- In Europe, political concerns surrounding the secession of Catalonia abated following the central government's imposition of direct rule over the region. Elsewhere, coalition building in Germany and Austria rumbles on and uncertainty surrounding Brexit negotiations continue to be the main headwinds for the Eurozone.
- Emerging Europe, however, continues to show positive momentum with strong GDP growth and robust manufacturing data. However, Turkey's embroilment with the US over visa bans was not supportive, with withdrawals by foreign investors exposing the vulnerabilities of the Turkish banking sector.
- While local rates and currencies struggled with local yields increasing from 5.42% to 6.17%, demand for new issuance of hard currency debt in both the primary and secondary markets kept spread levels stable at 307 basis points (bps). At the end of October cumulative flows into EM fixed income stood at $96.7bn year-to-date.

By the numbers

- Emerging market hard currency debt (which is denominated in convertible currencies of leading economies) ended October +0.18%, as measured by the JPMorgan Emerging Market Bond Index Global (JPM EMBIG).
- Hard-currency corporate bonds returned +0.3% in October, as measured by the JPMorgan Corporate Emerging Markets Bond Index (CEMBI) Diversified.
- Emerging market local bonds returned -2.82%, 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 -0.56% in October.

Outlook

- Accommodative global monetary policies as well as a meaningful improvement in the fundamental picture experienced by many EM countries has provided a supportive backdrop for EMD.
- The strong performance in EMD has resulted in expensive valuations compared to their historic averages. However, when compared to DM, the asset class continues to offer attractive yield pickup.
- The attractive yield pickup combined with the supportive backdrop has led to record inflows into EM fixed income, with YTD flows reaching +$91 billion. While this draws concern regarding the crowded technical position, the demand should continue to be supported by the yield differential to DM and the under allocation of global bond funds compared to their maximum allocations.
- In terms of the impact of US rates, we feel that, given the significant tightening in spread levels, a pick-up in rate volatility causing sharp movements in either direction will have a negative effect on spread levels. This has been evidenced over the past 4 months where US Treasury yields compressed, but hard currency spread levels remained flat. For that reason, our premise is that returns through the end of the year will be driven by carry.
- Given the current tight valuation levels and overall market complacency, we anticipate episodic volatility given a number of market risks including Fed taper and fiscal expansion leading to higher interest rates in the US, as well as continued geopolitical events across DM and EM countries, including North Korea and China.
- In the near term, we would view a pickup in volatility as an opportunity to add risk to our portfolios at more attractive levels. Over the longer term, we believe EMD remains an attractive asset class given the improvement in fundamentals and attractive relative valuations in EM versus DM.

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

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 is an unmanaged index that tracks debt securities of emerging markets. It includes USD-denominated Brady bonds, Eurobonds, and traded loans issued by sovereign and quasi-sovereign entities, and is a traditional market-capitalization weighted index.

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

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