HSBC Global Asset Management

January 2018

HSBC Frontier Markets Fund

Monthly Commentary

Total Return (%)	Fund performance ending January 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	5.10%	5.81%	5.1%	21.58%	8.07%	8.59%	10.12%	21.20%	9.09%	9.39%
Class A with maximum sales charge (5.00%)	-0.13%	0.54%	-0.13%	15.46%	6.24%	7.49%	9.23%	15.11%	7.97%	8.50%
Class I	5.16%	5.97%	5.16%	22.06%	8.47%	8.97%	10.50%	21.60%	9.47%	9.78%
Benchmark Comparison – MSCI Frontier Markets Index	5.73%	10.31%	5.73%	30.71%	8.48%	8.91%	8.52%	31.86%	9.27%	7.68%
Benchmark – MSCI Select Frontier & Emerging Markets Capped Index*	5.50%	10.63%	5.50%	23.63%	6.26%	6.26%	7.16%	22.52%	6.49%	6.35%

*The indicative index was a customized MSCI Frontier Emerging Markets Capped Index until end of May 2014 and the customized MSCI Select Frontier & Emerging Markets Capped Index thereafter.

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: September 6, 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' investments in investment companies) to an annual rate of 2.20% for Class A Shares and 1.85% for Class I Shares. The expense limitation agreement is effective until March 1, 2018.**

Expense Ratio[1]	Class A	Class I
Gross	2.45%	2.10%
Net	2.20%	1.85%

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Lipper awards recognize consistently strong risk-adjusted returns relative to their peers. The Best Emerging Markets Fund Award is granted to the fund with the highest Lipper Leader for Consistent Return over the 5-year period as of November 30th of the prior year.

Performance

- The Frontier Markets Class A shares returned 5.10% in January, while its reference benchmark, MSCI Select Frontier & Emerging Markets Capped Index, returned of 5.73% over the month. The I shares class returned 5.16% for the period.

Attribution and Positioning

- Key contributors included Halyk Savings Bank (portfolio weight: 2.68%), the largest lender by assets in Kazakhstan. Its share price was boosted by higher oil prices. NMC Health (portfolio weight: 2.26%), a UAE-based healthcare provider, also made a notable contribution, as it gained on positive trends in healthcare in Abu Dhabi coupled with announcements of more acquisitions in the region. Exposure to off-benchmark Philippines homebuilder Vista Land & Lifescapes (portfolio weight: 1.99%), driven by supportive changes to tax regulations for real estate outside of Manila, also supported relative returns.
- Offsetting some gains was Argentine bank Banco Macro (portfolio weight: 3.60%), which saw profit taking after a strong December. We maintain our position as we see upside based on strong loan growth and healthy asset quality levels. Human Soft (portfolio weight: 3.33%), a Kuwait-based education company, fell modestly over the period due to the overhang as its founder looked to sell a part of his stake. As it is not held in the benchmark, its underperformance had a relatively larger impact on relative returns. The underweight to Vietnam also suffered as that equity market continued to gain on strong macro-economic momentum.
- We initiated a position in MM Group for Industry and International Trade (portfolio weight: 0.27%), a leading distributor in Egypt operating across four segments: consumer electronics, telecom, automotive, and agricultural tractors & pipes. The company is attractively valued and is generating sustainable high returns on invested capital due to its strong competitive advantage, an asset light and highly-cash generative distribution model. Another new addition was KAZ Minerals (portfolio weight: 0.99%), a copper company in Kazakhstan, which is attractively valued and should see a rise in its profitability as the company ramps up major growth projects. We exited our position in Robinsons Land given that we did not want to participate in a dilutive capital increase.

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Market Review

- Global equities continued to rise, returning 5.6% in January, as rising 2018 earnings growth expectations drove a strong risk-on sentiment across the world. Frontier Markets (FM) also had a strong start with the MSCI Frontier Markets Net Index rising 5.7% and our custom reference index, the MSCI Select Frontier & Emerging Markets Capped Net Index returning 5.5%. However, FM trailed emerging markets (EM) with the MSCI Emerging Markets Index returning 8.3%.

- Amongst the best performing FM were Romania (+13.6%), which gained in anticipation of generous dividend payouts. Nigeria (+13.4%) and Kazakhstan (+11.4%) benefitted from higher oil prices.

- The weaker performing markets included the Philippines (-1.3%) and Egypt (-1.1%) although there was no specific news related to those markets. Bangladesh (+1.9%) lagged driven by changes in banks regulations and lower foreign exchange liquidity.

Outlook

- The outlook for FM remains positive. These markets continue to offer attractive opportunities to invest in local companies benefiting from domestic economic development trends.

- Supportive global economic conditions and continued improvements in fundamentals coupled with economic development and low penetration of goods and services across FM should allow for further gains in corporate earnings. Valuations relative to profitability continues to look attractive for FM compared to both EM and developed markets (DM).

- While volatility appears benign, investors should not be complacent. There are risks which may lead to increased market volatility in the short-term. At the forefront are US economic policy, a potentially more rapid than expected policy normalization by the Federal Reserve, European Central Bank or Bank of Japan and concerns surrounding Chinese growth. The electoral calendar in 2018 could also keep political risks elevated in some frontier and emerging markets.

- As fundamental investors, we are able to uncover quality companies that are delivering earnings growth and sustainable returns while trading at an attractive valuation to build a diversified FM portfolio.

Risks to Consider

- Past performance is no guarantee of future results.
- 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.
- Equity investments fluctuate in value based on changes to an individual company's financial condition and overall market 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.
- Frontier markets generally have smaller economies or less developed capital markets than traditional emerging markets, and therefore investing in frontier markets can magnify the risks of investing in emerging markets.
- Derivative instruments. Derivatives can be illiquid, may disproportionately increase losses and may have a potentially large negative impact on performance.

Benchmark

Our definition of frontier markets includes the 23 countries forming part of the industry standard MSCI Frontier Markets Index plus 6 emerging market 'crossover' countries (that is, Colombia, Egypt, Peru, Philippines, Qatar and UAE) that are frontier in nature and are under-represented in the mainstream MSCI Emerging Markets Index, as well as off-benchmark countries (e.g. Saudi Arabia) that are unrepresented in the MSCI indices and companies operating in frontier countries but are officially listed on a developed market exchange (e.g. companies with significant operating assets located within a frontier country but listed in London or Hong Kong).

We employ a custom reference index – the MSCI Select Frontier & Emerging Markets Capped index – that is only available to HSBC and which reflects our globally diversified investment approach by removing the inadvertent skews towards particular regions introduced by the publically available alternatives. We believe this is necessary, and indeed a key point of distinction with our strategy, as the 'industry standard' benchmark, the MSCI Frontier Markets Index, has a disproportionately large skew to the two countries (Kuwait and Nigeria) while the MSCI Frontier Emerging Markets index, in its uncapped form, has a disproportionately large skew to the four emerging market 'crossover' countries within that index (i.e. Colombia, Egypt, Peru and the Philippines)

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