Monthly Commentary

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 1.85% for Class A Shares and 1.50% for Class I Shares. The expense limitation agreement is effective until March 1, 2020.

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.

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Performance

The Frontier Markets Class A shares returned -2.36% in May, while its reference benchmark, MSCI Select Frontier & Emerging Markets Capped Index, returned -0.59% over the month. The I shares class returned -2.35% for the period.

Attribution and Positioning

The Fund underperformed its benchmark. Our overweight exposure to Egypt and UAE detracted from performance. This was partially offset by our underweight in Qatar. Stock selection within countries was negative, in particular within UAE. However, this was partially offset by positive contribution from our holdings in the Philippines.

Detractors included NMC Health (portfolio weight: 2.33%) and DP World (portfolio weight: 3.20%) in the UAE. NMC Health shares were lower on the back of 2018 results consensus earnings and profit expectations having been cut though the results were strong. Though the business has de-rated over the past year, prospects are still good. DP World gave back most of its April gains, largely a reflection of US/China trade tensions and fears of global slowdown rather than stock specific concerns.

On the positive side, particular stock highlights included International Container Terminal Services (ICT) (portfolio weight: 2.84%) and Puregold (portfolio weight: 2.60%). ICT rallied as the group reported first quarter 2019 results which showed strong revenue growth (18%), EBITDA up 25% year-on-year (yoy) and net income to equity holders at 77% yoy. The results were a confirmation of the investment thesis for investors at an attractive valuation relative to the company’s own history and its peers. Puregold also reported first quarter results during the month. Net profits increased 12% yoy, in line with expectations, driven by strong same-store sales growth for both Puregold S&R to produce a consolidated number of 7.5%. The company’s 2019 guidance for the full year looks quite conservative by comparison to its first quarter results.

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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

◆ Frontier markets (FM) equities finished the month slightly lower, with our custom reference index, the MSCI Select Frontier & Emerging Markets Capped Index, down -0.7% (USD).

◆ At the country-level, Argentina was the best-performing market, while Colombia, Uruguay and Pakistan lagged the market.

◆ At the sector-level, Information Technology was the strongest-performing sector followed by Energy. Real Estate and Industrials lagged the Index.

Outlook

◆ The long-term outlook for FM remains positive. Improvements in fundamentals coupled with economic development and low penetration of goods and services across FM should allow for further gains in corporate earnings.

◆ Valuation relative to profitability continues to look attractive for FM compared to both emerging markets (EM) and developed markets (DM). Opportunities in FM are domestically driven, leading to historically low correlation to each other, to EM and to DM, which could provide potential portfolio diversification benefits.

◆ We are mindful of risks in the current environment, which are primarily exogenous to FM, but may lead to increased market volatility in the short term. At the forefront are US-China trade talks, economic transition in China, the robustness of the global economy as a whole and geopolitical risk.

◆ 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

The Fund’s primary benchmark, the MSCI Select Frontier and Emerging Markets Capped Index has been developed by MSCI for the Adviser and, in terms of geography constituents, includes the 29 geographies that are part of the MSCI Frontier Markets Index classification as well as seven small emerging market “crossover” geographies (namely Colombia, Egypt, Pakistan, Philippines, Peru, Qatar, and United Arab Emirates) that are also included within the MSCI Emerging Markets Index. The MSCI Select Frontier and Emerging Markets Capped Index is a free float-adjusted market capitalization index designed to measure equity market performance in the aforementioned geographies. The MSCI Frontier Markets Index is an “industry standard” index that captures large- and mid-cap representation across 29 frontier market geographies. The index is a free float-adjusted market capitalization index that is designed to measure equity performance of frontier markets. Index returns assume reinvestment of all distributions and do not reflect fees or expenses or taxes.

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