

# HSBC Frontier Markets Fund

## Monthly Commentary

Total Return (%)	Fund performance ending May 31, 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	-8.55%	-7.47%	-6.02%	-0.68%	3.24%	4.25%	7.79%	17.28%	7.63%	9.61%
Class A with maximum sales charge (5.00%)	-13.11%	-12.07%	-10.71%	-5.66%	1.49%	3.19%	6.97%	11.42%	6.54%	8.75%
Class I	-8.52%	-7.37%	-5.93%	-0.36%	3.59%	4.60%	8.16%	17.74%	8.01%	10.00%
Benchmark Comparison – MSCI Frontier Markets Index	-9.16%	-11.16%	-7.45%	6.36%	3.74%	4.50%	6.44%	27.59%	9.06%	8.70%
Benchmark – MSCI Select Frontier & Emerging Markets Capped Index*	-6.70%	-6.86%	-3.90%	5.88%	3.17%	3.50%	5.72%	20.38%	6.20%	7.18%

\*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.

<sup>1</sup> 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.

Expense Ratio <sup>1</sup>	Class A	Class I
Gross	3.89%	3.54%
Net	1.85%	1.50%

### Performance

- ◆ The Frontier Markets Class A shares returned -8.55% in May, while its reference benchmark, MSCI Select Frontier & Emerging Markets Capped Index, returned -6.70% over the month. The I shares class returned -8.52% for the period.

### Attribution and Positioning

- ◆ Detractors from performance included BBVA Banco Frances (portfolio weight: 2.31%), which fell along with other Argentine banks in response to actions of the central bank. Analysts believe the hawkish tone could lead to a reduction in loan growth and a compression in net interest margins. Furthermore, Centamin (portfolio weight: 3.15%) fell as the company shared guidance for a weaker second quarter as low grades persist at their flagship Sukari mine in Egypt. Lack of production equipment availability has also been an issue and resulted in lower production.
- ◆ The main contributors to performance came from underweight Argentine equities that fell with the wider market. Grupo Financiero Galicia (portfolio weight: 0.98%), a financial services company saw large losses. Despite delivering a solid set of results Telecom Argentina, not held by in the portfolio, also fell.
- ◆ During the month, positions were initiated in Credit Agricole Egypt (portfolio weight: 0.76%), Georgia Capital (portfolio weight: 0.52%) and Vietnam Technological & Commercial Joint Stock Bank (portfolio weight: 2.63%). Positions in Bank Muscat and CI Capital Holding were sold.

### Investment products:

ARE NOT A BANK DEPOSIT OR OBLIGATION OF THE BANK OR ANY OF ITS AFFILIATES	ARE NOT FDIC INSURED	ARE NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY	ARE NOT GUARANTEED BY THE BANK OR ANY OF ITS AFFILIATES	MAY LOSE VALUE
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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

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- ◆ Frontier Markets (FM) performed poorly in May with the MSCI Frontier Markets Index returning -9.2% and our custom reference index, the MSCI Select Frontier & Emerging Markets Capped Index delivering -6.7%.
- ◆ Within FM, performance was mixed. Bahrain was the sole outperformer supported by solid gains from GFH Financial Group, a Bahrain-based investment bank that delivered better-than-expected earnings.
- ◆ Conversely, Argentina and Egypt both lagged. The Argentina market saw large losses as the peso plummeted, spurred by multiple unexpected rate rises by the Argentinian Central Bank. This culminated in the government approaching the International Monetary Fund (IMF) for financial support. In Egypt, the stock market also fell after the Central Bank decided to hold its interest rate and due the anticipation of higher utility and energy prices.

## Outlook

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- ◆ The 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 growth in corporate earnings.
- ◆ Valuation relative to profitability continues to look attractive for FM compared to both emerging markets and developed markets. Opportunities in FM are domestically driven, leading to historically low correlation to each other, to emerging and to developed markets, which could provide potential portfolio diversification benefits.
- ◆ We are mindful of risks in the current environment, which are primarily exogenous to FM but could lead to increased market volatility in the short term. At the forefront are rising inflation risk and the changing expectation of the pace of US rate hikes, global trade tension, concerns surrounding Chinese growth, 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

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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