

HSBC Frontier Markets Fund



Quarterly fund report

4th Quarter 2017



WINNER OF THE 2017
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UNITED STATES

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HSBC 
Global Asset Management

Quarterly market performance

Top 5 performing countries (%)

Country	Absolute return	Contribution to reference index
Vietnam	36.26	3.19
Kazakhstan	25.33	0.46
Estonia	14.37	0.05
Serbia	11.46	0.02
Argentina	7.31	0.81

Bottom 5 performing country (%)

Country	Absolute return	Contribution to reference Index
Kuwait	(7.22)	(0.57)
Pakistan	(5.46)	(0.05)
Sri Lanka	(5.33)	(0.07)
United Arab Emirates	(4.25)	(0.27)
Oman	(2.49)	(0.6)

Past performance is no guarantee of future results. Source: HSBC Global Asset Management – data as of December 31, 2017. The reference index is a customized MSCI Frontier Emerging Markets Capped index until May 31, 2014 and the customized MSCI Select Frontier & Emerging Markets Capped index thereafter.

Frontier markets recorded strong gains in 2017, with the MSCI Frontier Markets Net Index returning 31.9% and our custom reference index, the MSCI Select Frontier & Emerging Markets Capped Index returning 22.52%. Performance was supported by a recovery in global growth, a rebound in oil prices and continued domestic policy improvement and market reforms across frontier countries.

The superior performance of the MSCI Frontier Market Index compared to our custom index can be explained by the difference in the structural compositions of the indices. The MSCI Frontier Markets Index is relatively concentrated in four markets – Argentina (24.0%), Kuwait (16.0%), Vietnam (13.7%) and Nigeria (7.1%), which together represent 61% of the Index. Our custom reference index is constructed to remove such structural biases and the weighting of those four markets is much lower, with Argentina (9.8%), Kuwait (7.0%), Vietnam (11.0%) and Nigeria (4.1%) accounting for only 32%. The stronger performance of MSCI Frontier Markets Index can be attributed to the sharp rally in those equity markets, particularly Argentina's and Vietnam's which rose 67.3% and 65.0%, respectively, over the year.

Over the fourth quarter of 2017, the MSCI Frontier Markets Net Index returned 5.6% and our custom reference index, the MSCI Select Frontier & Emerging Markets Capped Index, returned 5.5%.

At a country level, there was a wide dispersion in returns.

Vietnam (+36.3%) rose sharply, supported by a positive macro environment and increased IPO activity. **Kazakhstan** (+25.3%) posted strong gains underpinned by a rally in KazMunai Gas Exploration and higher oil prices. **Estonia** (+14.37%) rose sharply due to the strong share performance of the largest company in the index, Tallink Grupp, after its announcement of exploring strategic options. **Argentine** equities (+7.3%) continued to gain on growing optimism of market-friendly reforms and increased IPO activity.

Among the weaker performing markets were **Kuwait** (-7.2%), **UAE** (-4.3%) and **Oman** (-2.3%). This was primarily due to a spillover effect from a corruption crackdown in Saudi Arabia which weighed on sentiment towards Gulf Cooperation Council (GCC) markets. **Pakistan** (-5.5%) suffered as a result of political uncertainty and fiscal pressure. **Sri Lanka** (-5.3%) declined with continued slower economic activity.

Quarterly market performance

	Oct	Nov	Dec	Qtr	YTD	1 yr	3 yrs	5 yrs	Since Inception
Class A without sales charge	0.93	-1.06	1.75	1.61	21.20	21.20	5.49	9.09	9.39
Class A with Maximum sales charge (5.00%)	-4.14	-5.99	-3.30	-3.50	15.11	15.11	3.69	7.97	8.50
Class I	1.00	-1.06	1.85	1.78	21.60	21.60	5.86	9.47	9.78
MSCI Select F&EM Capped Index	0.65	1.45	3.36	5.55	22.52	22.52	3.32	6.49	6.35
MSCI Frontier Markets Net Index	1.23	1.16	3.13	5.61	31.86	31.86	5.01	9.27	7.68

Past performance is no guarantee of future results. Source: HSBC Global Asset Management. The performance data is calculated in USD, on a bid to bid basis, net of fees, as of December 31, 2017. Returns relate to the AC and IC share classes, calculated after deduction of management fees and operating expenses, and returns longer than one year are annualized. The reference index is a customized MSCI Frontier Emerging Markets Capped Net index until May 31, 2014 and the customized MSCI Select Frontier & Emerging Markets Capped Net index thereafter. Index information is for illustrative purposes only. **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 more current performance and other information, please call 1-888-936-4722 or visit <https://investorfunds.us.hsbc.com>. Maximum sales charge: Class A: 5.00%; Class I: None. Expense Ratio (Gross/Net): Class A: 2.45% / 2.20%; Class I: 2.10% / 1.85%.**

Over the fourth quarter of 2017, the Fund delivered an absolute return of +2.53% (gross of fees) compared to +5.55% for the custom reference index (MSCI Select Frontier & Emerging Markets Capped Index). For 2017, the fund returned +24.00% against +22.52% for the reference index, outperforming by 1.48% in relative terms.

Relative underperformance during the quarter was primarily due to country allocation. The Fund's underweight allocation to Vietnam had a negative impact as its equity market rallied strongly over the period. Overweight allocations to UAE and Kuwait weighed on performance as these markets suffered with the negative sentiment towards the region from a corruption

crackdown in Saudi Arabia. Stock selection in the Philippines, particularly exposure to Robinsons Land (portfolio weight: 0.95%) and Puregold Price Club (portfolio weight 2.73%), also detracted from relative returns.

Offsetting some of those losses was strong stock selection in Bangladesh, Romania and Egypt. The underweight allocation to Bahrain also made a positive contribution as its equity market declined resulting from weak economic indicators.

At a sector level, holdings in Financials, Consumer Discretionary and Health Care made positive contributions, while Real Estate, Industrials and Materials detracted from relative performance.

Key purchases and sales over the quarter

Over the fourth quarter, seven new positions were added and five holdings were sold.

We initiated a position in **Sampath Bank**, a leading commercial bank in Sri Lanka. The bank is attractively valued relative to profitability, and we believe capital constraints should be alleviated with the upcoming rights issue. Other additions were **Cleopatra Hospital**, **Emaar Development**, **Juhayna Food Industries**, **Oriental Weavers**, **TMG Holding** and **Vincom Retail**.

We reduced our exposure in Pakistan and sold our positions in **United Bank**, **Lucky Cement**, **Searle Company** and **Engro Fertilisers** as a result of profit taking. We also exited from **Al Tayyar**, a travel company based in Saudi Arabia, following corruption allegations surrounding its founder.

Quarterly stock performance attribution (%)

Positive	Country	Average active weight	Allocation effect	Selection effect	Relative impact
Nagacorp Ltd.	Cambodia	2.38	0.44	0.00	0.44
BBVA Banco Frances	Argentina	1.98	0.37	0.00	0.37
BRAC Bank	Bangladesh	1.55	0.37	(0.00)	0.37
Vincom Retail	Vietnam	0.98	0.35	0.00	0.35
Cablevision Holding	Argentina	(0.32)	0.29	0.00	0.29

Past performance is no guarantee of future results. Source: HSBC Global Asset Management – data as of December 31, 2017. Portfolio data is subject to change. **Average active weight** is the average of difference between the weight of security in the actively managed portfolio and its weight in the benchmark portfolio. **Allocation effect** measures the investment manager's ability to effectively allocate their portfolio's assets to various securities. **Selection effect** measures the investment manager's ability to select securities within a given segment relative to a benchmark.

- **Nagacorp:** Is a Cambodian leisure and tourism company. The stock rallied following the successful opening of Naga2, a massive hotel and extension to the capital's NagaWorld casino and resort.
- **BBVA Banco Frances:** Is an Argentine bank. The stock benefitted from a strong rally in Argentine financials with the continued reform momentum.
- **BRAC Bank:** Is a commercial bank in Bangladesh which gained on market speculation of a stake sale in bKash, a subsidiary of the bank that provides mobile financial services.
- **Vincom Retail:** Is a leading mall operator in Vietnam. The stock benefitted from the completion of an initial public offering in November.
- **Cablevision Holding:** The Fund does not have exposure to this Argentina-based company engaged in the telecommunications sector. Our underweight position was beneficial as the stock declined over the period.

Quarterly stock performance attribution (%)

Negative	Country	Average active weight	Allocation effect	Selection effect	Relative impact
Banco Davivienda	Colombia	3.06	(0.57)	0.00	(0.57)
VINGROUP	Vietnam	(1.52)	(0.56)	0.00	(0.56)
Emaar Properties	UAE	2.03	(0.54)	(0.00)	(0.54)
Agility	Kuwait	3.03	(0.46)	0.01	(0.46)
Human Soft	Kuwait	3.77	(0.43)	0.00	(0.43)

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Allocation effect measures the investment manager's ability to effectively allocate their portfolio's assets to various securities. **Selection effect** measures the investment manager's ability to select securities within a given segment relative to a benchmark.

- **Banco Davivienda:** Is one of the top three banks in Colombia, with the leading position in the country's mortgage sector. The stock suffered following disappointing results by a large Colombian bank which raised investor concerns about Colombian banks.
- **VINGROUP:** Is a Vietnamese company primarily engaged in the real estate business. The Fund has no exposure to this name and our relative underweight suffered as the large index name rallied sharply.
- **Emaar Properties:** Is a real estate development company located in the UAE. The stock declined as a special dividend that was announced fell short of expectations in December.
- **Agility:** Is a Kuwait-based logistics company. There was no specific news, but the GCC markets suffered in general during the quarter following the arrests of a number of Royal Family members in Saudi Arabia.
- **Human Soft:** Is a Kuwait-based education services company which experienced some correction after a strong period of performance year-to-date.

Quarterly country performance attribution (%)

The tables below show the largest overweight and underweight country positions for the quarter.

Positive	Average active weight	Allocation effect	Selection effect	Relative impact
Bangladesh	2.33	0.08	0.36	0.44
Romania	1.63	(0.11)	0.42	0.31
Egypt	5.75	(0.31)	0.60	0.29
Morocco	(4.11)	0.15	0.11	0.27
Bahrain	(3.39)	0.26	0.00	0.26

Past performance is no guarantee of future results. Source: HSBC Global Asset Management – data as of December 31, 2017. Portfolio data is subject to change. **Average active weight** is the average of difference between the weight of security in the actively managed portfolio and its weight in the benchmark portfolio.

Allocation effect measures the investment manager's ability to effectively allocate their portfolio's assets to various securities. **Selection effect** measures the investment manager's ability to select securities within a given segment relative to a benchmark.

- **Bangladesh:** Strong stock selection, notably exposure to BRAC bank, contributed to positive performance.
- **Romania:** Underweight position in Banca Transilvania supported relative performance as that stock declined over the period. Exposure to SIF 5 Oltenia (portfolio weight: 1.90%).
- **Egypt:** Key contributors included Centamin (portfolio weight 4.04%), a gold mining company, which benefitted from a rise in gold prices, and Cleopatra Hospital (portfolio weight 1.03%), which delivered solid third quarter 2017 results and showed robust year-on-year earnings growth driven by higher price points of services offered and an increase in the volume of patients served.
- **Morocco:** Underweight to Maroc Telecom supported performance as the stock declined.
- **Bahrain:** Underweight allocation supported relative performance as its equity market declined with weak economic indicators.

Negative	Average active weight	Allocation effect	Selection effect	Relative impact
Vietnam	(6.22)	(1.58)	0.03	(1.55)
Philippines	0.02	0.00	(0.85)	(0.85)
Kuwait	5.37	(0.71)	(0.05)	(0.76)
UAE	7.80	(0.82)	0.09	(0.72)
Colombia	(0.49)	0.01	(0.40)	(0.39)

Past performance is no guarantee of future results. Source: HSBC Global Asset Management – data as of December 31, 2017. Portfolio data is subject to change. **Average active weight** is the average of difference between the weight of security in the actively managed portfolio and its weight in the benchmark portfolio.

Allocation effect measures the investment manager's ability to effectively allocate their portfolio's assets to various securities. **Selection effect** measures the investment manager's ability to select securities within a given segment relative to a benchmark.

- **Vietnam:** Underweight allocation detracted from performance as Vietnamese equities continued to perform well due to strong GDP growth which was supported by export growth.
- **Philippines:** Exposure to Robinsons Land (portfolio weight: 0.95%) and Puregold Price Club (portfolio weight: 2.73%) detracted from performance. Robinsons Land announced a rights issue that put pressure on its share price.
- **Kuwait:** Overweight allocation suffered as the market suffered primarily due to uncertainty stemming from the corruption crackdown in Saudi Arabia which weighed on sentiment towards GCC markets.
- **UAE:** Overweight allocation suffered as the market suffered primarily due to uncertainty stemming from the corruption crackdown in Saudi Arabia which weighed on sentiment towards GCC markets.
- **Colombia:** Key detractor was overweight exposure to Banco Davivienda.

Largest 5 stocks by active weight (%)

Stock	Country	Active Weight
Centamin	Egypt	4.04
Human Soft	Kuwait	3.64
Int'l Container Term Services	Philippines	3.53
DP World Ltd	UAE	3.21
Agility	Kuwait	3.14

Smallest 5 stocks by active weight (%)

Stock	Country	Active weight
Ahli United Bank	Bahrain	(2.24)
Maroc Telecom	Morocco	(1.94)
Kuwait Finance House	Kuwait	(1.80)
KazMuni Gas	Kazakhstan	(1.71)
VINGROUP	Vietnam	(1.53)

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Largest stocks by active weight

- **Centamin:** Is an Egyptian gold mining company, which also has exposure to Ethiopia and Burkina Faso.
- **Human Soft:** Is a Kuwait-based company that offers education, training and human resources management services and operates a publishing business. The stock is attractively valued and earnings should grow sustainably with a growing number of students, the addition of new majors and courses, and stable/increasing tuition fees.
- **International Container Terminal Services:** Is a Philippines-based company and is one of the largest port operators in the world. The company is trading at attractive valuations and we see high levels of sustainability and visibility over the company's earnings given the strategic nature of its ports and its origin and destination (O&D) focus.
- **DP World:** Is one of the top-five largest port operators in the world with more than 70 terminals globally. The company has a successful mergers and acquisitions track record that supports growth and drives efficiency in the acquired ports.
- **Agility:** Is a Kuwait-based logistics company and is among the leading freight forwarding companies globally. The company is attractively valued relative to profitability and we should see margins improve as freight forwarding revenues are seeing a recovery, driven by better global trade and as the company strengthens its IT systems.

Smallest stocks by active weight

- **Ahli United Bank:** Is a Bahrain-based bank. The fund has no exposure to this company due to its low liquidity.
- **Maroc Telecom:** We do not invest in this company due to its high valuations.
- **Kuwait Finance House:** We do not invest in this stock due to lack of transparency and of access to company management.
- **KazMunai Gas:** Is an oil and gas company operating in Kazakhstan. The Fund has no exposure to this holding as we do not deem the disclosure and corporate governance of the company to be in line with our standards.
- **VINGROUP:** Is a Vietnamese company which is primarily engaged in the real estate business. The Fund has no exposure to this name due to rich valuations and a its complicated corporate structure.

Country positioning (%)

The tables below show the largest overweight and underweight country positions for the quarter.

Overweight	Fund weight	Reference index weight	Active weight	Underweight	Fund weight	Reference index weight	Active weight
Egypt	10.76	1.00	9.76	Vietnam	4.38	10.59	(6.21)
United Arab Emirates	13.86	5.91	7.96	Morocco	3.47	7.55	(4.08)
Kuwait	12.26	7.00	5.26	Qatar	1.14	4.96	(3.82)
Georgia	4.89	0.00	4.89	Bahrain	0.00	3.32	(3.32)
Cambodia	3.57	0.00	3.57	Lebanon	0.00	2.38	(2.38)

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We have a bottom-up investment approach and country positioning is residual to stock selection.

Overweight

- Egypt:** We finally saw the long-awaited currency devaluation in Egypt in late-2016, and the decision to move to a freely floating exchange rate is a welcome development. We are very much encouraged by the positive steps being taken by the government to reduce the deficit and feel the current IMF program in place should ensure the ongoing implementation of tough measures such as an increase in Value Added Tax (VAT) and cuts in subsidies. We feel Egypt is at an inflection point where inflation is slowly reducing and GDP growth is picking up. Valuations are looking attractive, and, thus, we became bullish at the end of 2017.
- UAE:** The country has proven its resiliency against lower oil prices, and our thematic exposure has become less cyclical as we remain diverse. We believe, as arguably the least oil-dependent economy in the region, Dubai will continue to weather the current oil storm, and we still deem current valuation levels to be very attractive. Dubai continues to improve its financial standing, investing in its infrastructure and key projects, and is on track to meet its 2020 vision of attracting 20 million visitors. In addition, we believe that the UAE could be one of the clear beneficiaries of the opening up of Iran to global trade and investment.
- Kuwait:** We have increased our exposure in 2017 to Kuwait by adding to new companies in the education and logistics space. The new additions to our holdings has turned our position to overweight. Kuwait continues to enjoy very high financial reserves and to command the lowest fiscal budget breakeven oil price in the GCC at less than USD 60 per barrel. We are very encouraged by the increased liquidity in the stock market that we saw in 2017 and are hopeful that the government will slowly start to implement their infrastructure plans.
- Georgia:** The fund has exposure to two banks, which are attractively valued and provide exposure to domestic growth.
- Cambodia:** The fund has exposure to two companies, both engaged in the leisure and tourism industry.

Underweight

- Vietnam:** The fund has exposure to select holdings in Vietnam due to cheap valuations and an improving economic outlook. Even though the Foreign Ownership Limits have recently been increased, access remains restricted by relatively low levels of liquidity. We expect ownership limits to continue to rise, encouraged by government directives. The country offers some interesting new research opportunities and we are constructive on this market.
- Morocco:** we continue to be underweight due to unattractive valuations. However, market liquidity has improved significantly over the past few quarters, presenting us with possible new investment opportunities once valuations move to a more compelling level.
- Qatar:** The fund remains underweight on valuation considerations. We have further reduced our allocation following the tense political situation with neighbouring countries. We are closely monitoring the political debacle and do not see any contagion effect to the GCC at this stage.
- Bahrain:** We remain out of Bahrain due to liquidity risk and low surpluses to support the economy.
- Lebanon:** We currently find no attractive opportunities in Lebanon.

Short-term investment outlook

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

Expectations for global growth to continue its recovery in 2018 coupled with continuing economic development and low penetration of goods and services in frontier markets should help drive corporate profit growth.

Furthermore, there are a number of frontier market countries which are under review for reclassification to emerging market indices. This has potential to spur further market reforms and, in turn, support equity market returns.

Valuations relative to profitability continue to look attractive for frontier markets compared to both emerging markets and developed markets. With money surging into emerging market funds, history suggests a bright outlook for frontier market fund flows.

As fundamental investors, we are able to uncover quality companies in frontier markets that delivering earnings growth and sustainable returns while trading at an attractive valuation.

As of December 31, 2017, our regional positioning (%) was as follows:

Region	Portfolio weight	Benchmark weight	Relative weight
Middle East & North Africa	42.71	36.00	6.71
Eastern Europe	12.84	9.76	3.08
Latin America	14.58	16.85	(2.27)
Asia	22.46	25.24	(2.78)
Sub-Saharan Africa	6.19	12.16	(5.97)

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Middle East and North Africa

- The drop in oil prices has brought long-awaited adjustments to the fiscal status of GCC countries. Economies are undergoing a structural change to reduce their reliance on oil. Diversifying sources of revenues has been the main theme and a number of countries have started implementing the Value Added Tax (VAT) at the beginning of 2018. Subsidies are being rationalized and focus on local employment is taking center stage. Even though governments have been reviewing their spending plans, essential projects that are strategic to growth and economy diversification are in full swing. Recent Purchasing Managers Index (PMI) data suggests that local economies have stabilized and activity levels are strengthening. The magnitude of future GDP growth will depend on how fast economies can adjust to the new reality. Most GCC countries still boast high financial reserves and we expect the non-energy sector to continue showing positive growth rates.
- The Fund continues to have high exposure to the GCC region, mainly due to attractive valuations and sustainable returns but also as a result of the added benefit of the \

market's US dollar pegs and high yields. We currently do not see any risk to the dollar peg and, in an environment of global currency concerns, we feel that this link to the US currency offers higher earnings visibility.

- The **UAE** currently commands our largest country weight. The country has proven its resiliency against lower oil prices and our thematic exposure has become less cyclical as we remain diverse. We think, as arguably the least oil-reliant economy in the region, Dubai will continue to weather the current oil storm, and we still deem current valuation levels to be very attractive. Dubai continues with the process of improving its financial standing, investing in its infrastructure and key projects, and is on track to meet its 2020 vision of attracting 20 million visitors. In addition, we believe that the UAE could be one of the clear beneficiaries of the opening up of Iran to global trade and investment.

- In **Qatar**, the fund remains underweight on valuation considerations. We have further reduced our allocation following the tense political situation with neighboring countries. We are closely monitoring the political debacle and do not see any contagion effect to the GCC at this stage. We currently do not have any exposure to the off-index market of **Saudi Arabia**. The Kingdom has announced an ambitious reform program, reducing subsidies and increasing investment in non-oil sectors. We are currently on the lookout for attractively-valued companies that are not negatively impacted by the new measures taken by the government.
- We increased our exposure in 2017 to **Kuwait** by adding to new companies in the education and logistics space. The new additions has turned our position to overweight. Kuwait continues to enjoy very high financial reserves and to command the lowest fiscal budget breakeven oil price in the GCC at less than USD 60 per barrel. We are very encouraged by the increased liquidity in the stock market that we saw in 2017 and we are hopeful that the government will slowly start to implement their infrastructure plans. We further reduced exposure to **Oman** in the first half of 2017 as the fiscal picture is deteriorating and is weaker than that of other GCC markets. We remain out of **Bahrain** due to liquidity risk and low surpluses to support the economy.
- In North Africa, where most countries are oil importers, we have exposure to **Egypt** and to **Morocco**. We finally saw the long-awaited currency devaluation in Egypt in late-2016 and the decision to move to a freely floating exchange rate is a welcome development. We are very much encouraged by the positive steps being taken by the government to reduce the deficit and feel the current IMF program should ensure the ongoing implementation of tough measures such as an increase in Value Added Tax (VAT) and cuts in subsidies. We feel Egypt is at an inflection point where inflation is slowly reducing and GDP growth is picking up. Valuations are looking attractive and thus we became bullish at the end of 2017.
- In **Morocco**, we continue to be underweight due to unattractive valuations. However, market liquidity has improved significantly over the past few quarters, presenting us with possible new investment opportunities once valuations move to a more compelling level.
- We continue to have no exposure to **Tunisia, Jordan** and **Lebanon** due to high valuations or low liquidity and political worries.

Eastern Europe

- The Fund's exposure to Eastern Europe remains relatively high. We added to companies in **Romania** in 2016. The general election in December 2016 passed uneventfully and the country remains committed to its low tax

environment (and aims to lower taxes further) in order to maintain the positive investment environment.

- The markets of the former Yugoslavia have exited their multi-year recessions; **Croatia**, for example, is expected to record its third consecutive year of GDP growth in 2017 (+2.1% after +1.9% in 2016).
- **Kazakhstan** has seen currency stability after a series of devaluations and confusing policy announcements. Inflation is falling rapidly and Halyk Bank (portfolio weight: 2.23%) has passed through this difficult period, maintaining its profitability and robust capital position. The Bank has acquired one of its largest rivals as a means of consolidating the sector.

Asia

- We reduced our exposure to **Pakistan** leading up to its MSCI reclassification date as valuations reached close to our fair value. We entered 2018 with a small exposure to the country. Pakistan remains a country with reasonable valuations and a decent dividend yield. We also continue to believe that there are many well-run companies across multiple sectors with good levels of disclosure that are supported by a compelling economy that has the potential for significant positive change if the political situation remains stable. The China Pakistan Economic Corridor (CPEC), an investment program of USD 46bn, will transform the country's infrastructure and alleviate the power shortage. Mobilization has started and we expect to slowly start seeing the impact on corporate results and loan growth in 2018-19. However, we acknowledge an increase in political risk that is casting heightened uncertainty on the short-term macro outlook. Also, we would like to see a better-valued currency before increasing our position in the country. In 2017, the MSCI reclassified Pakistan as an Emerging Market. This change did not impact our investment universe as Pakistan is now classified as a "crossover" emerging market in our custom reference index.
- The **Philippines** economy continues to perform well although we expect some slowdown in 2018. The country continues to benefit from lower oil prices and continued growth in remittances and business process outsources (BPO) earnings should keep domestic demand strong. We expect infrastructure spending to pick up in 2018 and support the next leg of growth as cramped airports and the absence of proper road networks are a main growth bottleneck. The role that the private sector will play in these projects will have a major impact on future earnings of large holding companies. The Fund has exposure to a supermarket chain that should continue to benefit from positive consumption trends, to the largest port operator in the country and to less well-researched real estate assets

where we believe there is hidden value. We continue to review the better-known larger capitalization names, however, finding attractive opportunities remains difficult.

- The Fund has exposure to select holdings in **Vietnam** due to cheap valuations and an improving economic outlook. Even though, the Foreign Ownership Limits have recently been increased, access remains restricted by relatively low levels of liquidity. We expect ownership limits to continue to rise, encouraged by government directives. The country offers some interesting new research opportunities and we are constructive on this market.
- We increased our allocation to **Bangladesh** in 2017 after identifying a couple of fundamentally strong companies that are trading at attractive levels. The country continues to witness one of the highest GDP growths in Asia with a sustained positive outlook. We are actively looking at new opportunities in Bangladesh and Sri Lanka, but liquidity remains the biggest challenge.

Latin America

- We have reduced our overweight position in **Colombia** recently on concerns of a weaker-than-expected economy this year. Company meetings suggest no quick recovery from 2016's disappointing economic performance with the impact of the (much-needed) tax reform likely to dampen consumer expenditure in the near-term. We continue to believe that corporates have adjusted well to the currency depreciation that was triggered by the collapse in oil price in 2015-2016 and expect growth to pick up over the second half of 2018, resulting from investments in infrastructure. The peace accord should also help in the longer term.
- We are underweight **Peru** relative to the reference index. Even though we like its macro story, finding investable companies at reasonable valuations is a challenge. Rising metals output (particularly copper) is providing a boost to economic activity. However, we fear that political tensions could be a theme in 2018, dragging on government and infrastructure spending.

- **Argentina** remains one of the most compelling economic restructuring stories in frontier markets. The new administration achieved a great deal in its first year, putting the country's finances on a sustainable path and opening up the country to new investment opportunities, both by increasing foreign direct investment and attracting back the savings held offshore by Argentines as the tax amnesty was a stunning success.

Sub-Saharan Africa (SSA)

- In **Nigeria**, the economy is moving slowly out of recession, driven by much improved availability of foreign currency and higher oil production. However, weak investments by both the government and the private sector and a struggling consumer are holding back a stronger and more durable recovery. Also, the lack of action from the government to fix current imbalances in the economy gives investors very low visibility. Foreign investors are watching the fragile recovery to see any signs of pick-up in government spending or recovery in consumer spending before increasing their allocation to the market.
- **Kenya** has seen a sharp bounce-back in performance in 2017, following a very weak start to the year, but we fear this is temporary. Accordingly, the Fund maintains its underweight position. Even though elections have passed, political risk and tension have not yet subsided to acceptable levels. Also, we would like to see the new government taking steps to dismantle some of previous action that put caps on interest rates which are hindering growth in the economy.

Investment objective

The Frontier Markets fund seeks long-term total return by investing primarily in a diversified portfolio of equity and equity equivalent securities of companies which have their registered office in, and with an official listing on a major stock exchange or other Regulated Market in Frontier Markets, as well as those companies with significant operations or carrying out a preponderant part of their business activities in these countries.

Investment philosophy and process

We believe Frontier Markets possess many structurally attractive characteristics and are both underdeveloped and inefficient. Through a focused and disciplined investment process we can exploit investment opportunities arising from these inefficiencies aiming to deliver superior risk-adjusted returns for our clients.

The team implements a bottom-up fundamental process focused on a rigorous stock analysis process combining quantitative and qualitative inputs and constructs the portfolio by implementing the individual stock ideas, with approximately 60-80 stock positions typically held.

The investment universe consists of companies based or listed in Frontier Markets. Our definition of frontier markets includes the 23 countries forming part of the industry standard MSCI Frontier Markets Index plus 7 emerging market 'crossover' countries (that is, Colombia, Egypt, Peru, Philippines, Pakistan, 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 fund, 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).

The investment universe consists of approximately 3,000 stocks, although our screening targets stocks with a minimum of USD250,000 in six-month Average Daily Trading Volume and in turn reduces this to around 750-800 investable stocks.

Management team

The HSBC Frontier Markets fund is managed by a dedicated and highly experienced Frontier Markets equity team, headed by Ramzi Sidani, a Senior Portfolio manager, who has been working in the industry since 2007. Prior to joining HSBC in 2016, Ramzi was a Portfolio Manager with SHUAA Asset Management in Dubai, managing the firm's flagship Frontier and MENA capabilities. Previously, he worked for Dubai Group as a part of the Acquisitions team. Ramzi holds a MSc (Hons) in Finance, from Boston College, Carroll Graduate School of Management, a Master of Business Administration from Lebanese American University and a Bachelor of Business Administration – Finance from American University of Beirut and is a CFA charterholder.

Talib Saifee is a Portfolio Manager on the Frontier Markets team and has been working in the industry since 2000. He joined HSBC in 2013 as a research analyst in the Global Emerging Markets team. Prior to joining HSBC, he was an Executive Director at Goldman Sachs Asset Management, where his coverage focused on banks and telecommunications companies across Europe, Middle East, and Africa. Prior to business school, Talib spent six years at Citigroup, first as an Analyst in their Investment Banking Division and later as an Associate within their Strategic Planning and Corporate M&A Groups. Talib holds a B.S. in Economics and a BA in History from The Wharton School, University of Pennsylvania and an MBA from Columbia Business School.

Tanya Chadha is an Equity Product Specialist covering HSBC's Frontier and Emerging Markets equity capabilities. Prior to joining the team in 2012, she worked for HSBC's Retail and Wealth Management business and prior to that as an Analyst for KPMG's Strategy Advisory business. Tanya holds a Master's degree in Economics and Management from the London School of Economics.

For further information on our Frontier Markets equity capability, please contact Tanya Chadha on +44 (0)20 7024 0551 or by email: tanya.chadha@hsbc.com

Legal structure	US Securities and Exchange Commission Registered Fund	Valuation	Daily
Launch date	30/11/2011 (GIF) and 04/02/2008 (SIF)	Ticker	Class A HSFAX
Reference index*	MSCI Select Frontier and Emerging Markets Capped Net		Class I HSFIX
Base currency	US Dollar	Ongoing charges** A share class	2.23%
Dealing	Daily (Monday to Thursday)	Ongoing charges** I share class	1.88%

* Index given for illustrative and comparative purposes only as the fund has no official benchmark.

**HSBC Global Asset Management (USA) Inc., the Fund's investment adviser ("Adviser"), has entered into a contractual expense limitation agreement with the Fund ("Expense Limitation Agreement") under which it will limit total expenses of the Fund (excluding interest, taxes, brokerage commissions, extraordinary expenses and estimated indirect expenses attributable to the Fund's investments in investment companies) to an annual rate of 2.20% for Class A Shares and 1.85% for Class I Shares. Any amounts contractually waived or reimbursed by the Adviser will be subject to repayment by the Fund to the Adviser within three years to the extent that the repayment will not cause the Fund's operating expenses to exceed the contractual expense limit that was in effect at the time of such waiver or reimbursement. The expense limitation shall be in effect until March 1, 2018. The Expense Limitation Agreement shall terminate upon the termination of the Amended and Restated Master Investment Advisory Contract between HSBC Funds (the "Trust") and the Adviser, or it may be terminated upon written notice to the Adviser by the Trust.

Important information

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.
- 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.
- Geographic concentration occurs when a portfolio concentrates its investments in one country or region. Portfolio performance is expected to be closely tied to the social, political, and economic conditions in that country or region, and may therefore be more volatile than the performance of more geographically diversified funds.
- Exposure to commodities markets, including investments in companies in commodity-related industries, may subject a fund to greater volatility than investments in traditional securities. The value of commodity-related investments may be affected by overall market movements and factors specific to a particular industry or commodity.

Benchmark Definitions:

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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Other Information

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Investors should consider the investment objectives, risks, charges, and expenses of the investment company carefully before investing. The prospectus contains this and other important information about the investment company. For clients of HSBC Securities (USA) Inc., please call 1-888-525-5757 for more information. For other investors and prospective investors, please call the Funds directly at 1-800-782-8183 or visit our website at <https://investorfunds.us.hsbc.com/default.fs> Investors should read the prospectus carefully before investing or sending money.

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