

HSBC Asia ex-Japan Smaller Companies Equity Fund

Monthly Commentary

Total Return (%)	Fund performance ending			August 31, 2018			Fund performance ending	
	1 Month	3 Month	YTD	1 Year	3 year	Since Inception	1 year	Since Inception
Class A without sales charge	-2.61%	-9.68%	-8.57%	-2.84%	13.03%	7.35%	6.92%	8.85%
Class A with maximum sales charge (5.00%)	-7.51%	-14.18%	-13.11%	-7.69%	11.10%	5.90%	1.59%	7.32%
Class I	-2.60%	-9.59%	-8.33%	-2.48%	13.40%	7.72%	7.30%	9.22%
Benchmark – MSCI AC Asia ex Japan Small Cap Index	-0.84%	-7.19%	-7.57%	2.22%	8.52%	3.58%	6.91%	3.88%

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>.

Expense Ratio ¹	Class A	Class I
Gross	5.18%	4.83%
Net	1.32%	0.97%

Inception date: November 11, 2014. 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.



**Overall Morningstar Rating™
Class I Shares**

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 1.25% for Class A Shares and 0.90% for Class I Shares. The expense limitation agreement is effective until March 1, 2019.

Rated among 75 Pacific/Asia ex-Japan Stock Funds, as of 7/31/18, based on risk adjusted total return. The Overall Morningstar Rating is a weighted average of the performance figures for its 3-, 5-, and 10-year (if applicable) Morningstar Rating metrics.[†]

Performance¹

- ◆ The Asia ex-Japan Smaller Companies Equity Fund Class A shares returned -2.61% in July, while its benchmark, the MSCI AC Asia ex Japan Small Cap Index, returned -0.84% over the month. Class I shares returned -2.60% for the period.

Attribution and Positioning

- ◆ The fund delivered a negative absolute return and underperformed the benchmark in August mainly due to poor stock selection in India, Korea and Taiwan.
- ◆ The portfolio's underweight to Korea, one of the better performing markets, also detracted from benchmark relative performance.
- ◆ China Xinhua, which provides undergraduate educational services, fell due to negative sentiment on updated regulations in the education sector. Hong Kong luxury retailer Emperor Watch & Jewellery fell despite releasing a very strong earnings results, as its management was guiding for flat future growth. Silicon Globalwafers was subject to profit taking, even though the company released solid results and provided an upbeat outlook.
- ◆ On the upside, Indonesian telecom XL Axiata continued its upward ascent on positive half yearly results that showed that it gained market share. Steel producer, Godawari Power, has benefitted from strong prices for its pellet products that are now at a four year high.

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

- ◆ The MSCI Asia ex Japan Small Cap Index ended August 0.8% lower in USD terms in August as market sentiment continued to be impacted by China –U.S. trade tensions and emerging market currency weakness as risk assets were sold down. Indonesian small caps fared the worst in USD terms, but much of this was in part due to currency weakness.
- ◆ Chinese and Hong Kong equities were also key underperformers in the region on the back of the U.S. announcement of tariffs on a further USD200bn of Chinese imports, softer macro data, a weaker RMB and a deceleration in infrastructure spending.
- ◆ The central banks of India, Indonesia and Philippines all raised rates, which helped to address the recent slides in their respective currencies, but the Indian Rupee still reached an all-time low at month end.
- ◆ Thailand has bucked the trend of emerging market currency falls mainly due to its current account surplus and large foreign currency reserves. This helped Thailand to be the strongest performing small cap market in USD terms in the month
- ◆ Korea also finished the month in positive territory due to net buying by foreigners and optimism over progress in trade discussions between U.S. and Mexico.

Outlook

- ◆ Trade barriers remain a key risk to Asian economies, but despite this, the broader trajectory of global economic growth remains strong for now, albeit less synchronized than last year (stronger US/ softer Europe).
- ◆ With the recent pullback in markets, valuations in Asia have moved to more attractive territory and provide a better entry point for the long term investor. While consensus earnings forecasts have been recently trimmed for 2018/2019, the EPS growth forecast for 2018 for the region remains a healthy 13%, and 11% for 2019.
- ◆ Other key risks are a stronger US Dollar, a stronger oil price (for big net importers like India) and a more aggressive rate hike cycle in the US. A continued risk-off environment will also place more pressure on emerging markets.
- ◆ While China's growth/demand shows some signs of softening (with some contribution from tightening policies), more recent supportive policy announcements (eg. accelerating infrastructure spending, and raising threshold on personal tax) should go some way to mitigate this. Current fundamentals in China remain more sound than the during the last major equity correction in 2015. India's reform agenda is also supportive of growth over the medium to long term, despite short term challenges around inflation and fiscal deficit.
- ◆ The ASEAN region remains an attractive destination for foreign direct investment given its competitive labour costs and exposure to a burgeoning trade and economic block.

¹ The HSBC Asia ex-Japan Smaller Companies Equity Fund (Class I) received 4 stars for the three-year rating among 75 Pacific/Asia ex-Japan Stock Funds, and was not rated for the five- or 10-year periods. A star rating is derived from a weighted average of the Fund's three-, five- and 10-year risk-adjusted returns as of 8/31/18. Different share classes may have dissimilar ratings. Star ratings are based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges and redemption fees), placing more emphasis on downward variations, and rewarding consistent performance. The overall rating is a weighted average of the three-, five- and 10-year (if applicable) returns. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. A fund must be in existence three years to be rated. Ratings are subject to change monthly. ©2018 Morningstar, Inc. All Rights Reserved. Morningstar and/or its content providers are the proprietors of this information; do not permit its unauthorized copying or distribution; do not warrant it to be accurate, complete, or timely; and are not responsible for damages or losses arising from its use.

Risks to Consider

- 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.
- Past performance is no guarantee of future results
- 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.
- Equity investments fluctuate in value based on changes to an individual company's financial condition and overall market conditions.
- Investing in mid and small capitalization stocks involves greater risks than investing in larger companies. Smaller companies may have a limited number of products, be more difficult to buy and sell, subject to greater business and competitive risks and more sensitive to market changes than larger capitalization companies.
- 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.
- 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

MSCI AC Asia ex Japan Small Cap Index captures small cap representation across 2 of 3 Developed Markets countries (excluding Japan) and 9 Emerging Markets countries in Asia of withholding taxes.

Important Information

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