HSBC Total Return 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	-0.82%	-1.74%	-0.82%	0.41%	1.10%	1.30%	1.69%	1.65%	1.38%	1.86%
Class A with maximum sales charge (4.75%)	-5.58%	-6.42%	-5.58%	-4.36%	-0.53%	0.32%	0.84%	-3.19%	0.40%	1.00%
Class I	-0.82%	-1.70%	-0.82%	0.73%	1.45%	1.65%	2.04%	1.97%	1.74%	2.22%

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: March 29, 2012. 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 1.60% for Class A Shares and 1.25% for Class I Shares. The expense limitation agreement is effective until March 1, 2018.

Expense Ratio[1]	Class A	Class I
Gross	1.67%	1.32%
Net	1.65%	1.30%

Performance

- The Total Return Fund Class A and Class I shares returned -0.82% in January.

Attribution and Positioning

- The portfolio struggled in January with underperformance stemming from hard currency exposure and select emerging market currency positions.
- Within hard currency, the portfolio's holdings of US Treasuries, held to gain interest rate duration without spread duration risk, was the largest detractor of performance. The overall reduction in spread levels also hurt select credit default swaps (CDS) positions in Brazil and Mexico.
- Elsewhere, long exposures to higher quality bonds with higher sensitivity to the US rates underperformed and long exposures to Lithuania and China dragged on performance.
- Long exposures in Argentina hurt performance as it issued a number of bonds in January, increasing market supply and reducing prices of existing issues. Furthermore, the announcement of more relaxed inflation targeting in the future was negatively received by markets, concerned that the central bank is not exercising the right amount of fiscal discipline.
- In local rates, positive performance was driven by long exposure to higher yielding countries, including Brazil, Colombia, Mexico and Turkey, benefitting from the overall weakening in the US dollar.
- Most of the underperformance was from short positions across a number of emerging markets (EM) currencies. Despite their expensive relative valuations, short positions in Asia-linked currencies (Thai baht) and euro-linked currencies (Hungarian forint) appreciated relative to the dollar while the Mexican peso also enjoyed a small uplift despite issues with heightened inflation. The largest detractor over the month was the short position in the South African rand, as it continues to be buoyed by reform rhetoric from the African National Congress leadership. However, we continue to hold the position given the deteriorating fiscal outlook and potential for future downgrade risks.
- The steep rise in US Treasury yields and the flow of new supply to the market provided an opportunity to meaningfully add risk exposure. Subsequently, we added hard currency duration selectively in China and Lithuania while adding new issuance in high yielding Argentina. We have also added CDS protection in South Korea given its tight spread levels.
- In local rates, we remain relatively unchanged with Colombia, Turkey and Mexico among our largest positions. We also continue to hold the pair trade of long Poland and short Hungary given their different inflation profiles and yield curve steepness.
- In local currencies, we have reduced exposure, closing the long positions in Chilean and Colombian pesos following a rally and also reduced the short in Poland given the prospects of increased rates.

HSBC Global Asset Management

Market Review

January proved to be duplicitous month for EMD with local assets posting their strongest performance in 18 months while hard currency assets slightly underperformed. This divergence in performance stemmed from the rapid rise in US Treasuries, which had a negative impact on hard currency assets, and the major decline in US dollar strength, a positive for local assets.

But what triggered these events? While US tax reform has applied upwards pressure on US Treasury yields, the main underlying causes lie outside of the US. In Europe, European Central Bank (ECB) President Draghi struck a more hawkish tone during January's policy meeting, stating that continued growth would likely see a convergence with inflation targets. In Japan, an uptick in inflation and recent reduction of bond purchasing lifted yields. Meanwhile, a surge in global equities and an improving global growth outlook saw US Treasuries sell off, with the US dollar equally underperforming.

The rise in US Treasuries has not triggered a sell-off in EMD, however, as investors still hungry for yield, continue to pour money into EM fixed income. Likewise, the strong fundamental backdrop and low levels of volatility continue to draw investors into the asset class. Consequently, spread levels were squeezed further from 310bps to 294bps while local yields fell from 6.14% to 6.06% with local returns further boosted by relative US dollar weakening.

By the numbers

- Emerging market hard currency debt (which is denominated in convertible currencies of leading economies) ended January -0.20%, as measured by the JPMorgan Emerging Market Bond Index Global (JPM EMBIG).
- Hard-currency corporate bonds returned +0.05% in January, as measured by the JPMorgan Corporate Emerging Markets Bond Index (CEMBI) Diversified.
- Emerging market local bonds returned +4.48%, as measured by the JPMorgan Government Bond Index Emerging Market Global Diversified (JPM GBI-EM GD).
- The local currency index, JPMorgan Emerging Market Local Bond Index, (JPM ELMI+) finished +2.89% in January.

Outlook

There are many reasons to be optimistic on EM. The recent strengthening of economic and fiscal fundamentals across most EM countries has seen an improvement in growth forecasts and will provide a meaningful contribution to the synchronized growth story of 2018. The outlook for EM corporates is equally positive given the repair in earnings before income, tax, and amortizations (EBITA) from the lows of 2015 and generally lower levels of leverage particularly when compared to US high yield counterparts. This is reflected in recent Purchasing Manager Index (PMI) scores for example, showing that recent confidence in developed markets (DM) countries has had a positive spillover effect for many emerging economies.

In the near-term, much of the attention will be focused on global bank monetary policy given the improvements in both US and European economies. While central bank intentions have so far been well communicated, we remain watchful of the catalysts for inflationary pressures which could prompt a faster tightening cycle. Similarly, we continue to monitor risks emanating from a gradual slowdown in China as it looks to implement structural reform, reducing debt and raising domestic consumption. However, EM markets should be relatively well-insulated as levels of global trade continue to trend upwards.

Against this supportive backdrop, EMD investor flows were at record levels in 2017 ($100 billion) and have been off to a strong start in 2018 ($11 billion in January) driven by the fundamental story, higher yield differentials in EM compared to DM and an ultra-low volatility regime. As such, EM valuations have tightened to close to historic levels, exposing EM assets to short-term risks such as the rise in US Treasuries or the USD. We, therefore, believe that a tactically cautious approach is appropriate while security selection will be paramount, ensuring that we are well-positioned to opportunistically add risk at more attractive valuations.

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
- Fixed income is subject to credit and interest rate risk. Credit risk refers to the ability of an issuer to make timely payments of interest and principal. Interest rate risk refers to fluctuations in the value of a fixed income security that result from changes in the general level of interest rates. In a declining interest rate environment, a portfolio may generate less income. In a rising interest-rate environment, bond prices fall.
- Investments in high yield securities (commonly referred to as “junk bonds”) are often considered speculative investments and have significantly higher credit risk than investment grade securities. The prices of high yield securities, which may be less liquid than higher rated securities, may be more volatile and more vulnerable to adverse market, economic or political 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.
- Convertibles are subject to the risks of equity securities when the underlying stock price is high relative to the conversion price (because more of the security’s value resides in the conversion feature); they are subject to the risks of debt instruments when the underlying stock price is low relative to the conversion price (because the conversion feature is less valuable). A convertible bond is not as sensitive to interest rate changes as a similar non-convertible debt instrument, and generally has less potential for gain or loss than the underlying equity security.
- Exchange Traded Funds (ETFs) are subject to the risks of the underlying securities that they are designed to track. Low liquidity levels in an ETF can result in higher volatility than its underlying securities. ETFs may also have management fees that increase their costs versus owning its underlying securities directly.
- 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 Definitions

J.P. Morgan Corporate Emerging Markets Bond Index (CEMBI) Diversified is a uniquely weighted version of the CEMBI index. It limits the weights of those index countries with larger corporate debt stocks by only including a specified portion of these countries’ eligible current face amounts of debt outstanding. The CEMBI Diversified results in well-distributed, more balanced weightings for countries included in the index. The countries covered in the CEMBI Diversified are identical to those covered by the CEMBI.

J.P. Morgan GBI-EM Diversified Index provides a measure of local currency denominated, fixed rate, government debt issued in emerging markets. Weightings among the countries are more evenly distributed within the diversified index compared to it’s three main composite indices consisting of the GBI-EM, GBI EM Global, and GBI EM Broad indices.

J.P. Morgan ELMI+ Index tracks total return for local denominated money market instruments in the emerging markets. The Index employs a liquidity sensitive weighting scheme, which uses exports plus imports as a base.

J.P. Morgan EMBI Global is an unmanaged index that tracks debt securities of emerging markets. It includes USD-denominated Brady bonds, Eurobonds, and traded loans issued by sovereign and quasi-sovereign entities, and is a traditional market-capitalization weighted index.

Index returns assume reinvestment of all distributions and not reflect fees or expenses. You cannot invest directly in an index.

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