



# HSBC Emerging Markets Debt (EMD)

Third Quarter 2017

Fund Overview

Class A: HCGAX

Class I: HCGIX

## Broad EMD exposure to capture yield potential

Not only has the size of the EMD asset class doubled over the past decade,<sup>1</sup> it has also become increasingly intricate and difficult to decipher. HSBC's robust macro economic analysis, valuation discipline, liquidity management and risk modeling tools are time- and market-tested to navigate opportunities and manage risk in this complex landscape.

Leveraging this platform, the HSBC EMD Fund seeks to capture select opportunities across the EMD hard currency and local debt segments to achieve the highest potential risk-adjusted returns. The two segments can react differently to shifts in the market. By having exposure to both universes, the fund can position itself to benefit from different drivers of performance in various environments.

The fund provides diversification and flexibility using a benchmark of 50% JP Morgan Emerging Markets Bond Index Global, with exposure to 66 countries, and 50% JP Morgan GBI-EM Global Diversified Index, with 18 countries, for a calculated blend of hard and local debt universes.

## Making strategic allocations targeting diversification

- Portfolio diversification.** Exposure to both hard currency and local EMD and to a range of EM countries brings clear diversification benefits. This understanding helps us focus on varying drivers of return and allocate based on different phases of the economic and business cycles to maximize risk-adjusted returns.
- How we manage risk.** We take a qualitative and quantitative approach to risk management, factoring in beta and correlations between asset classes, volatility, and downside risk. Models are subjected to rigorous stress testing prior to implementation. Identifying, pricing and combining risks is at the core of our investment process
- EMD expertise.** HSBC has been active in emerging markets for over 150 years. With a staff of approximately 200 dedicated emerging markets professionals in 15 countries, our global EMD investment team leverages extensive knowledge and insights from one of the world's largest emerging markets investment platforms.

## Allocation guidelines

Using our in-depth valuation and quantitative tools, we determine our positions within the following ranges:

Hard currency	30%-70%
Local exposure	30%-70%**
Corporate debt	0%-25%
USD cash	0%-20%
Tracking error	1.5%-3.0%

Source: HSBC Global Asset Management.

<sup>1</sup>Source: J.P. Morgan, as of June 30, 2017.

<sup>2</sup>Annualized prospectus expense ratio as stated in the February 28, 2017 prospectus.

\*\*The Fund is subject to margin rules imposed by applicable law which currently preclude the Fund from trading in certain uncleared derivatives. The inability to use these instruments may adversely impact the Fund's performance.

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.

## Portfolio Management



### Nishant Upadhyay

Lead Portfolio Manager

- Head of Global EMD
- Joined HSBC in 2015
- 17 years industry experience



### Zeke Anurag Diawn

Co-Portfolio Manager

- Senior Portfolio Manager
- Joined HSBC in 2016
- 21 years industry experience



### Billy Lang

Co-Portfolio Manager

- Portfolio Manager
- Joined HSBC in 2016
- 13 years industry experience

Team-based collaboration lies at the core of our investment process. Portfolio management decisions incorporate the expertise and analysis of numerous EMD specialists.

## Key Characteristics\*

Vehicle	Inception	AUM
Fund	Apr 2011	\$55.7M
Strategy	Sep 1998	\$8.5bn

### Expense Ratio<sup>2</sup>

Class A: 1.72% Class I: 1.37%

50% JP Morgan EM Bond Index Global (EMBI Global); 50% JP Morgan GBI-EM Global Diversified Index (GBI-EM GD)

Invests predominantly in EM sovereign and quasi-sovereign bonds and FX

\*AUM figures as of 30 September 2017.

## HSBC Global Asset Management\*

HSBC has been active in emerging markets for over 150 years and is one of the world's largest managers of emerging markets assets

\$125.5bn emerging markets assets

\$85.3bn in emerging markets debt assets

\$19.3bn managed by the US EMD investment team

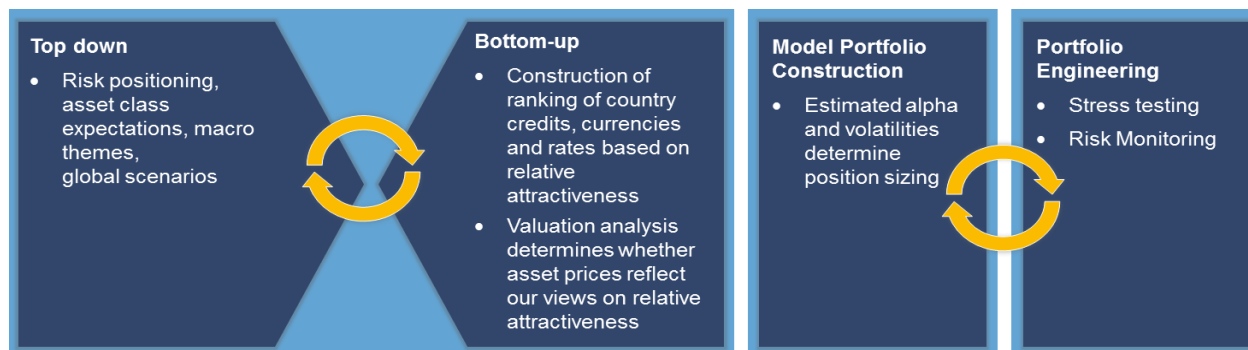
\*AUM figures as of 30 September 2017.

**HSBC**   
Global Asset Management

## Portfolio Construction and Implementation

- **Fundamental analysis with a strong valuation discipline.** The fund is implemented by our experienced global EMD investment team and supported by over 30 additional analysts and investment specialists that provide macroeconomic, fundamental, and relative value analytics. These insights help determine the fund's overall risk appetite, beta, and class targets.
- **Model portfolio construction** guides the investment team's risk and exposure planning. The investment team estimates an expected return and future volatility levels for a variety of risk dimensions (beta and correlations between asset classes, volatility, downside risk, standard deviation). Preliminary exposure targets are established according to these estimates and then recalibrated based on an assessment of market technicals and flows, macro themes, and risk limits.
- **Portfolio engineering and stress testing.** Prior to implementation, model portfolios undergo a rigorous stress testing regimen led by the portfolio engineering team. Long-term and short-term considerations are evaluated with the use of two risk models. This process helps ensure allocations are aligned with the fund's established risk and return targets.

## Investment Process



## Key Risks

**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.

- **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.
- **High Yield** 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.
- **Foreign and emerging markets** 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.
- **Derivative instruments** Derivatives can be illiquid, may disproportionately increase losses and may have a potentially large negative impact on performance.

### Important information

This document is for information only and does not constitute investment advice, a solicitation or a recommendation to buy, sell or subscribe to any investment. It is not intended to provide and should not be relied upon for accounting, legal or tax advice.

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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://investorfund.us.hsbc.com/default.fs> Investors should read the prospectus carefully before investing or sending money.**

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