



# HSBC Asia ex-Japan Smaller Companies Equity

## Fund Overview

Class A: HAJAX

Class I: HAJIX

### Accessing Asia's new economy

Rising domestic consumption has prompted a new economy in Asia – one moving away from traditional sectors and towards consumer, healthcare and technology. Small caps are benefiting from the shift. In fact, we believe small caps provide more exposure to these new economy sectors than their large cap counterparts. This exposure, along with the pure-play business models in the small cap space contribute to its growth potential.

HSBC Asia ex-Japan Smaller Companies Equity Fund seeks to invest in smaller cap stocks with the strongest potential for long-term capital appreciation. The fund provides access to a broad range of industries.

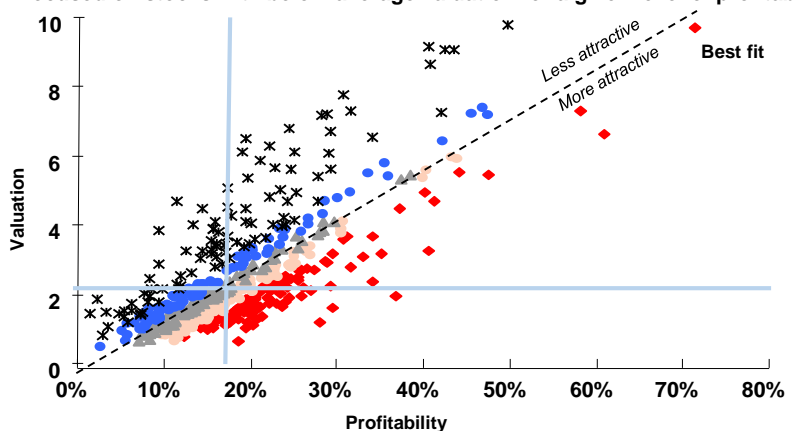
### Capturing the potential of smaller caps

- 1 Superior research.** HSBC's time-tested insight and experience in Asia give our investment teams an edge in an under-researched space. We leverage our research expertise and local presence to select promising opportunities from a expansive small cap universe.
- 2 Tapping into small cap diversification and growth.** Small caps in Asia often provide hidden opportunities. They exhibit more balanced exposure across industries in the private sector, versus larger caps that are primarily government-owned. In addition, smaller companies in specialized growth industries, such as electronics and auto parts, are often inaccessible through large caps.
- 3 Strict valuation discipline.** HSBC's investment approach seeks to exploit market inefficiencies and find undervalued assets to generate attractive longer-term risk-adjusted returns. Our rigorous research on Asian ex-Japan industries and companies allows us to uncover underpriced assets and extract growth as prices revert to the mean.

### Determining the opportunity set

We see a strong positive correlation between a company's fair value and profitability, as measured by its return-on-equity (ROE) or return-on-invested-capital. Asia ex-Japan smaller cap markets are inefficient in the short-term and pricing tends to correct in the long-term. In the sample set of Asia ex-Japan small caps, our research focuses on undervalued stocks (below the line of best fit) that we believe can attain fair value and enhance portfolio returns.

#### Focused on stocks with below-average valuation for a given level of profitability



Source: HSBC Global Asset Management, as of June 30, 2017

#### 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 |
|---|----------------------|--|---|----------------|

All decisions regarding the tax implications of your investment(s) should be made in connection with your independent tax advisor.

#### Portfolio Manager



#### Elina Fung

Investment Director, Equities  
Based in Hong Kong  
16 years industry experience



#### Alex Kwan

Associate Director, Equities  
Based in Hong Kong  
9 years industry experience

#### Key Characteristics

|          | Inception | AUM*    |
|----------|-----------|---------|
| Fund     | Mar 2016  | \$14.6m |
| Strategy | Jul 2005  | \$1.6bn |

#### Expense Ratio

Class A: 1.78% Class I: 1.43%

**Benchmark:** MSCI AC Asia ex Japan Small Cap Index

Fund focuses typically on smaller companies in Asia (ex-Japan) with below-average valuation for a given level of profitability

Typical number of holdings: 60-90 stocks

Ex-ante tracking error: 4% to 12%

The fund is USD hedged, with capacity for up to 10% non-USD exposure

#### 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 market assets

Three dedicated small cap professionals and over 60 additional analysts and managers in country and regional teams

US \$84bn in equities managed\*

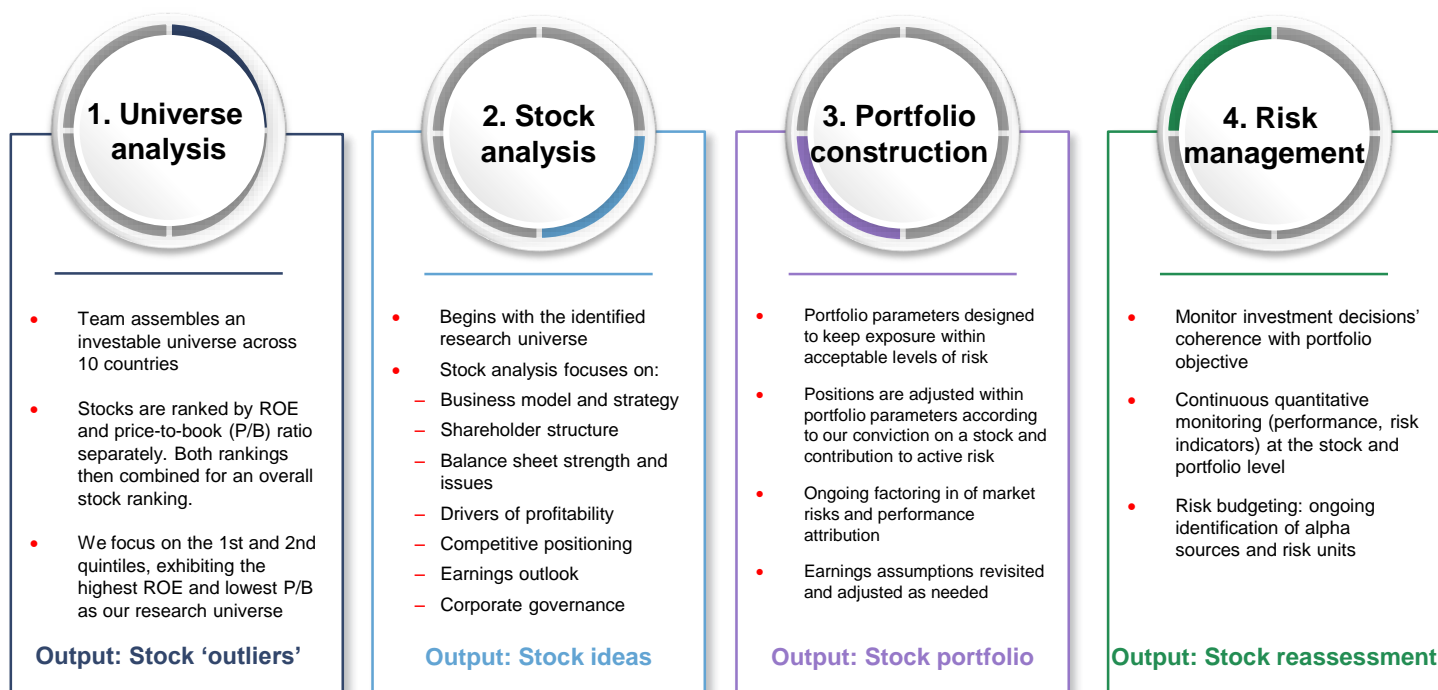
\*AUM data as of September 30, 2017



## Investment philosophy and process

With our belief in the positive correlation between a company's valuation and profitability, we concentrate our research effort on stocks with sustainable profitability that we believe are undervalued. We believe they will correct themselves in the long run, providing strong potential for capital appreciation.

- A focus on stocks with below-average valuation for a given level of profitability can help us outperform the index on a rolling 3-year basis
- Overweighting positions in profitable companies with lower valuations can enhance returns
- Market vacillations provide us with an opportunity to buy good stocks at attractive valuations
- Markets revert to a measure of "relative intrinsic value" over time. Therefore, we are patient investors with a strict valuation discipline and long-term investment horizon



Source: HSBC Global Asset Management

### Important Information

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