# HSBC Total Return

**Third Quarter 2017**

Fund Overview

Class A: HTRAX
Class I: HTRIX

## Agile leadership in evolving EMD markets

Today's emerging markets debt (EMD) has many moving parts and has become far more complex for many investors. HSBC Total Return aims to diversify risk across all emerging markets segments, including countries, sovereigns, quasi-sovereigns, corporate debt, and currencies.

The fund's total return approach is benchmark agnostic and aims to maximize risk-adjusted returns. This structure helps our investment team capitalize on a quickly changing marketplace while seeking to deliver about half to two-thirds of the volatility associated with emerging market external debt, local debt and currencies indices.

## Managing risk in a volatile marketplace

1 **Risk-focused in current environment.** The fund targets maximum risk-adjusted returns through flexible beta and duration management. It seeks to offer 50-65% of the volatility of traditional EMD indices, while maintaining a positive return in a challenging marketplace. The portfolio is stress tested and calibrated for lower volatility and lower drawdowns.

2 **Actively managed for reduced volatility.** Investment decisions are based on the expected return, volatility and correlations of the EMD opportunity set. Our total return approach allows us to express our investment views on spreads, currencies, and yields, while managing risk. Overall exposure to EM markets can be tactically varied and may not always be 100% long the market.

3 **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.

## Performance drivers

**Target sources of excess return**

| |
|---|
| Country selection<br>(67 EM countries-JP Morgan Emerging Market Bond Index Global) |
| Issuer selection<br>(sovereign, quasi-sovereign, corporate) |
| Local currency selection |
| Yield curve management |
| Instrument selection |
| Local currency duration |

*Source: HSBC Global Asset Management.*

Investment success in emerging markets relies on robust macro and sector analysis, valuation discipline and risk and liquidity management.

*[1]1Annualized prospectus expense ratio as stated in the February 28, 2017 prospectus.*

**Portfolio Management**

**Nishant Upadhyay**
Lead Portfolio Manager

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

**Vinayak Potti**
Co-Portfolio Manager

- Senior Portfolio Manager
- Joined HSBC in 2009
- 14 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 | Mar 2012 | $15.4M |
| Strategy | Oct 1999 | $4.2bn |

**Expense Ratio[1]**
Class A: 1.67% Class I: 1.32%

Seeks to deliver positive risk-adjusted returns while providing capital protection and reduced volatility

Primarily invests in EM external debt (sovereign and corporate) and local debt (interest rates and currencies)

*[*]AUM figures as of September 30, 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 September 30, 2017.*

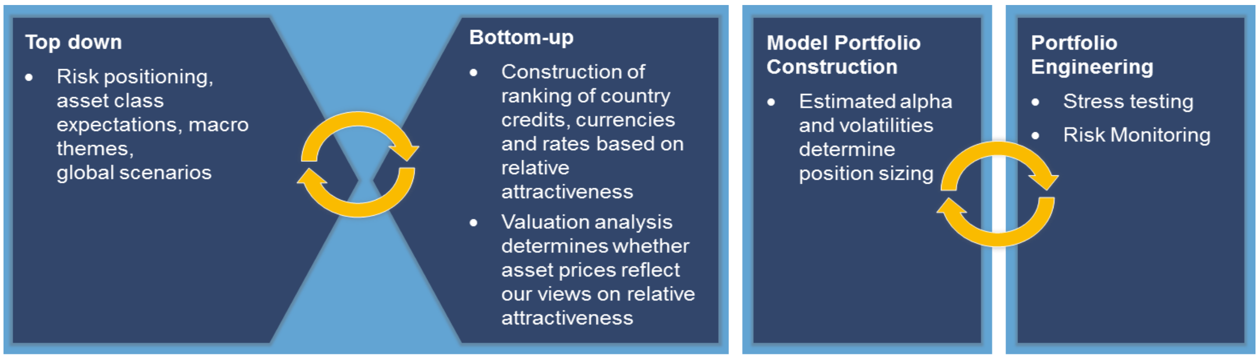


HSBC
Global Asset Management

## Portfolio Construction and Implementation

- **Fundamental analysis with a strong valuation discipline.** The strategy is implemented by 11 members of the global EMD portfolio management team and supported by over 30 additional analysts and investment specialists that provide macroeconomic, fundamental, and relative value analytics. These insights help determine the strategy'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 strategy'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

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Portfolio characteristics, including position sizes and sector allocations, among others, are generally averages, are only for illustrative purposes, and do not reflect the investments of an actual portfolio unless otherwise noted. The investment guidelines of an actual portfolio may permit or restrict investments that are materially different in size, nature and risk from those shown.

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CA# 20180104 - 101531 – 18-01-20 || Exp. 12/31/2018