Invest in your dreams

HSBC World Selection Portfolios

HSBC
Global Asset
Management

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Invest in your dreams

For many of us, tucking money away in the bank seems like the safest way to protect and grow our savings. That approach may or may not help you make your dreams come true.

One thing you can count on is that the value of your cash probably won't grow at the same rate as inflation, so your money actually buys you less over time.

Investing is a way to help your money work harder than it does sitting in a savings account. You can seek higher growth than inflation, by investing over the long term using a mix of different methods and strategies.

That leads a lot of people to wonder about how to get started…
asking themselves:

- How and when do I start?
- How do I choose my investments?
- Is it difficult to manage them from day to day?

These are all valid concerns, and exactly why we created the HSBC World Selection Portfolios – to take some of the worry away, helping you invest confidently, to get you closer to realising your dreams.

It is important to note that investment products are not guaranteed and are subject to investment risk, including the possible loss of the amount originally invested

What will your cash buy you over time?

Historically not as much as you think!

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Historically, cash does not keep pace with the cost of living.

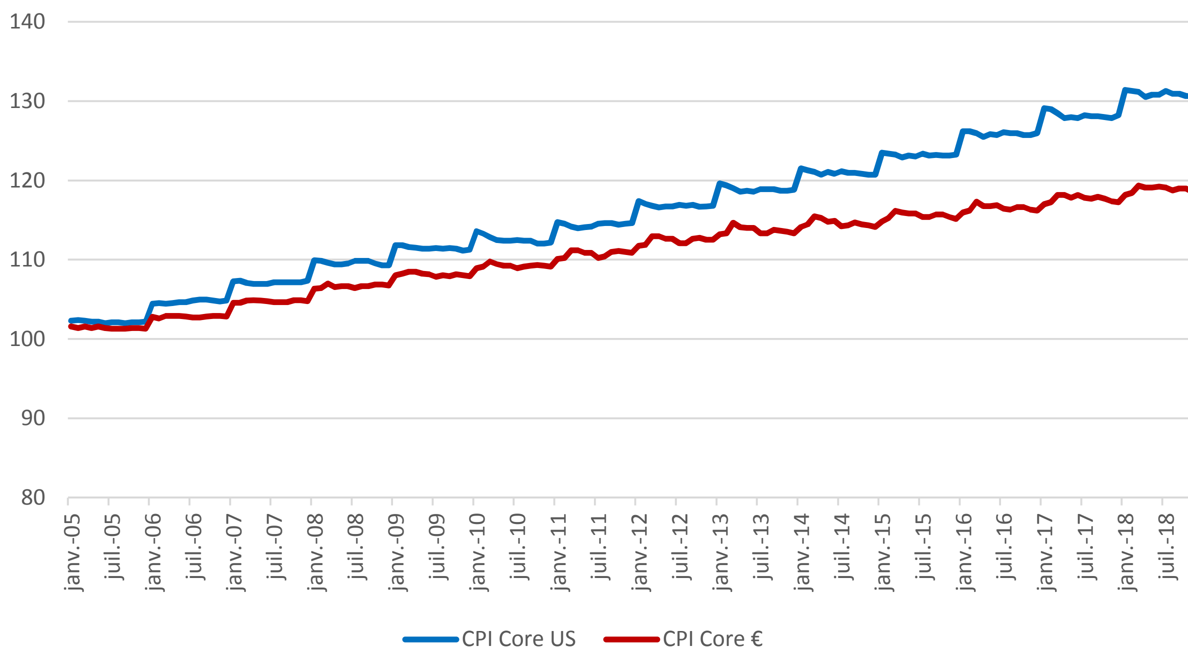
With prices rising, over time the money in your savings account is likely to buy you less.

In the US the average cost to attend a four-year private university in 1987 was USD15,160. Nearly thirty years later in 2016, the price was USD34,100, a 125% increase. The price of public colleges and universities also rose by 208%. Yet in that same timeframe, middle-class incomes increased by only 12%[2]. College is no longer affordable without taking on a lot of debt for most US families, unless they plan and invest for years in advance.

Here's an everyday example, looking at the purchasing power of one US dollar from the 1930s to 2018. In the 1930s, your dollar would have bought you 11 loaves of bread. By the 1970s, that same dollar would only buy you four loaves. And in 2018? You couldn't even buy half a loaf of bread.

The original buying power of that dollar has been reduced to less than 10 cents. If the money you have in your savings isn't growing at a rate at least equal to the rate of inflation, your purchasing power goes down. This means that in real terms, you may actually be losing money[3].

Core Consumer Price Index year-on-year change in the US and in the Eurozone



* Source: HSBC Global Asset Management as at December 2018.

1 Office for National Statistics, 26 April 2018.

2 College Board, October 2017. Federal Reserve Economic Data, as at January 2016.

3 Sources: http://www.thepeoplehistory. com/70yearsofpricechange.html, and www.numbeo.com/cost-of-living/country_result. jsp?country=United+States

The sooner you start investing –

the closer you'll be to realising your dreams

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Watching the news may have you questioning if now is the right time to invest.

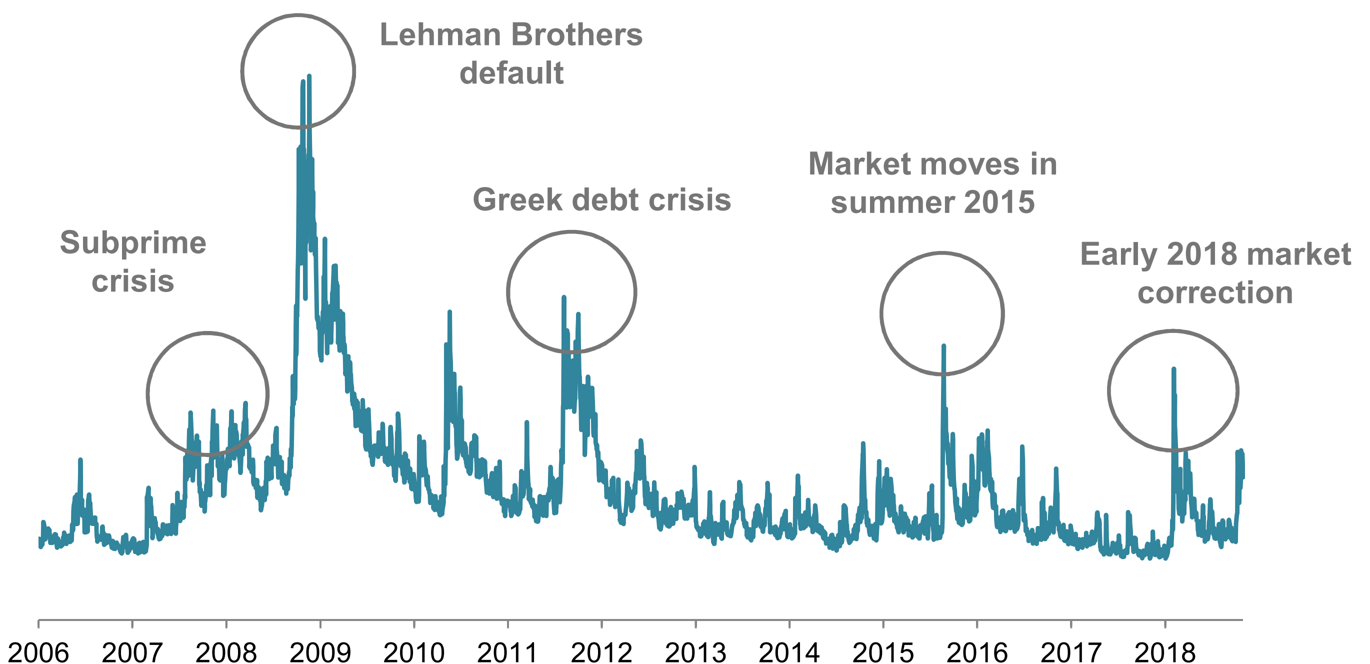
Investing over the long term may help you realise your dreams.

Changes in the political and economic climate around the world happen all the time, and history has shown that financial markets eventually recover from even the biggest turmoil.

There were setbacks over the years – the Subprime Crisis, the Lehman Brothers default, the Greek Debt Crisis – these were always followed by periods of significant recovery.

The sooner you start investing, the closer you'll be to realising your dreams. And once you invest, it's important to continue to invest regularly in order to reach your goals.

While unexpected events may still happen, history shows* that stock markets eventually recover.



Past performance is not an indication of future returns.

* Source: Bloomberg. US Equity (S&P500 index), volatility (VIX), data as of 31 october 2018.

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Aiming for long-term steady returns

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Staying invested for the long term is only part of the story.

What you invest in is just as important.

Using a mix of different types of investments can give you steadier returns over time.

Using a mix of different types of investments or 'asset classes' in a single portfolio - known as a multi-asset strategy - can be an effective way to help you grow your savings towards long-term goals.

The trick is picking just the right blend of investments to create an effective portfolio, one that over the long term delivers the returns you need to reach your goals, for the level of risk you are comfortable with. That is what the HSBC World Selection Portfolios aim to do.

The portfolios offer access to global equity and bond markets, as well as alternative asset classes, such as listed property, all at a level of risk that suits you.

Diversification is at the core of our World Selection Portfolios.

We look at all the options available and select those that will complement one another best to get the most out of your investment. That means instead of your investment going into one asset, it will be spread across many.

Because we know that everyone has a different comfort level when it comes to investing, we offer five growth portfolios. Each is managed to a different risk level, so you can choose the portfolio that can help you reach your objectives at a level of risk that makes you comfortable.

Each portfolio invests in a diverse collection of assets including shares in some 4,000 companies[1], along with government bonds, corporate bonds, property and cash, across different currencies and geographies. The assets in our portfolios are monitored daily by our team of investment professionals, who look at them based on long-term market conditions as well as short-term opportunities and make adjustments as necessary. Performance is also reviewed regularly to make sure our portfolios deliver effective returns in line with their risk level.

It is important to remember that stock market investments should be viewed as a medium to long-term investment and should be held for at least five years. The value of investments (and any income received from them) can fall as well as rise and you may not get back what you invested.

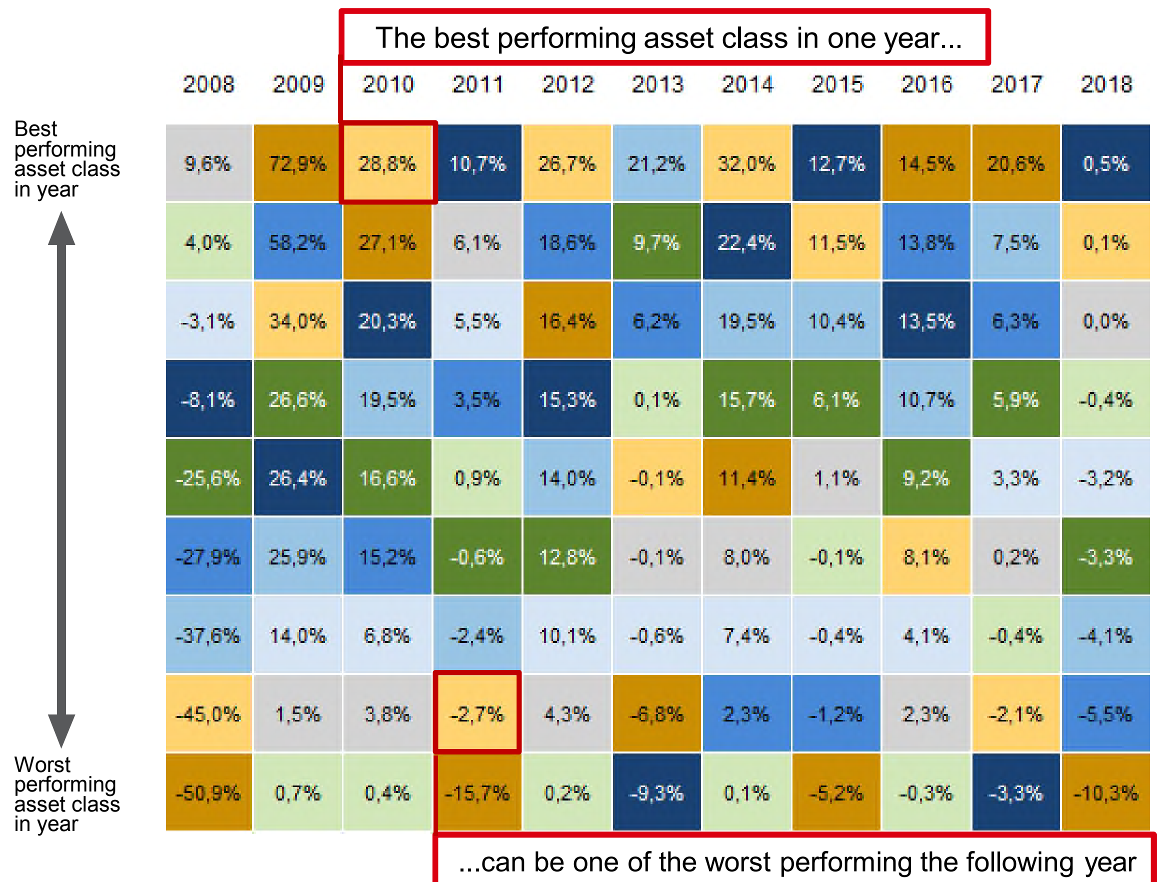
[1] Source: HSBC Global Asset Management 2018

Selecting the right blend of investments...

...to create effective portfolios.

The chart below shows the variation in returns across investment markets from year to year.

Monitoring so many asset classes and understanding which are poised for better performance takes time and skill. The knowledge and resources of the investment teams behind the HSBC World Selection Portfolios are constantly at work on this so you don't have to be.



Key:

- EM Equity
- EMD Local
- Diversified
- DM Equity
- Global Government
- Cash
- Global Corporate
- Global High Yield
- Property

Past performance is not a guarantee of future performance.

Source: Morningstar, HSBC Global Asset Management, data as at 31 December 2018. All returns in EUR, total return.

Indices used: JPMorgan GBI-EM Global Diversified (EMD local currency); MSCI Emerging Market Equity; MSCI World Index; Citi World Government Bond Index; Bloomberg Barclays Global Aggregate Corporate Bond Index; ICE Bank of America Merrill Lynch Global High Yield; FTSE EPPRA/NAREIT Listed Property Index, ICE LIBOR 3 Month.Bond indices are hedged, ex EMD local currency (i.e. global government, global corporate, global high yield, EMD hard currency). This is consistent with our default hedging policy in our portfolios. Equities are unhedged

The commentary and analysis presented in this document reflect the opinion of HSBC Global Asset Management on the markets, according to the information available to date. They do not constitute any kind of commitment from HSBC Global Asset Management.The views expressed above were held at the time of preparation and are subject to change without notice

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HSBC World Selection Portfolios invest in a wide range of asset classes

Portfolios include:

- Global Equities
- Global Government Bonds
- Global Corporate Bonds
- Global High Yield Bonds
- Emerging Market Debt
- Asset Backed Securities
- Property
- Cash

Through such a diverse blend of asset classes globally, the portfolios aim to deliver steady, long-term returns across market conditions.

Key takeaways

- The investment outcome can often be improved by holding more than one asset class in a blended, multi-asset portfolio. Diversification can:
  - Reduce risk for the same level of return, or
  - Increase return for the same level of risk
- You should aim to understand the risks involved and then choose a portfolio aligned with your overall attitude to risk

A global portfolio to match your risk appetite

Our strategy aims to maximise returns relative to the level of risk in each portfolio.

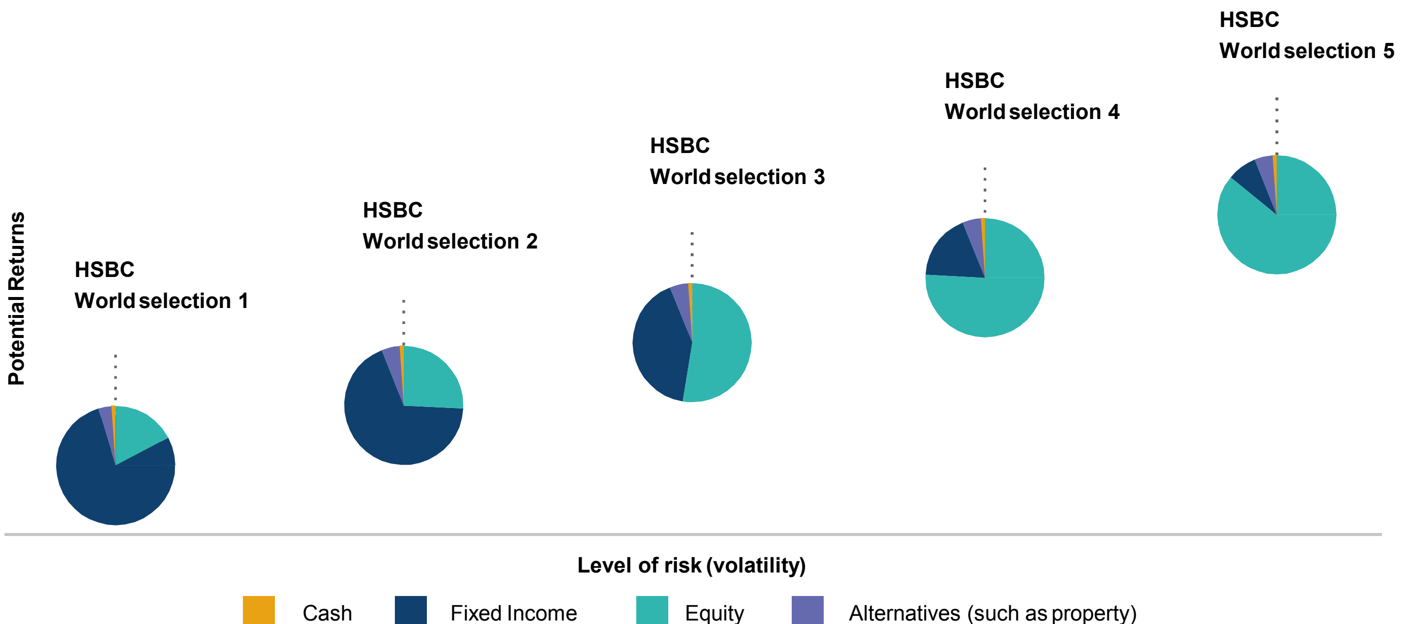
A well diversified portfolio can provide you with access to asset classes, currencies and geographies that together aim to deliver the best possible return for your risk level.

Diversification is at the core of the HSBC World Selection Portfolios. What this means is that a variety of assets, which complement each other by reacting in different ways to market movements, are combined. As a result, your exposure to market fluctuations can be smoothed over time because falls in the value of one asset can be offset by increases in the value of another in the portfolio.

We use volatility – how the investment fluctuates – as a measure of risk. The more that returns fluctuate (up and down) over time, the more volatile (risky) the investment. Each of the HSBC World Selection Portfolios targets a specific level of volatility, so you can choose the level of risk appropriate for you.

A higher return generally involves higher risk. It's important that you understand your risk tolerance level in order to choose a portfolio that best suits your financial goals and risk appetite.

HSBC World Selection Portfolios - Five different risk profiles*



* Source: HSBC Global Asset Management, as at June 2018. For illustrative purposes only, and subject to change at any time.
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Robust investment process

Financial markets can sometimes be inefficient; meaning assets can be mispriced. This is why decisions on asset allocation are regularly reviewed in order to take advantage of potential opportunities, rather than following a 'set and forget' strategy.

The HSBC World Selection Portfolios are continuously monitored to ensure timely adjustments that consider current market opportunities and risks.

Three-stage investment process:

Representative overview of the investment process, which may differ by product, client mandate or market conditions.

1 Strategic Asset Allocation

The starting point for the HSBC World Selection Portfolios is the Strategic Asset Allocation (SAA). This is the long-term blend of assets for each risk level; in other words, the blend that is expected to produce the highest return for a given level of portfolio risk. The SAA provides the reference point around which the portfolios can then be managed, and is the main driver of portfolio performance.

Portfolio optimisation

Three key data inputs are used in creating the optimal asset mix

- Expected returns for each asset class
- Historic volatility for each asset class
- Correlation – a measure of how closely two assets move together over time – low correlation helps build a well diversified portfolio

2 Tactical Asset Allocation

Tactical Asset Allocation (TAA) is another layer in the investment process. It aims to provide timely adjustments to the portfolios' asset mix to reflect the team's views on the current market environment.

TAA enables the portfolios to navigate shorter-term market conditions more effectively.

3 Portfolio Implementation

This is the final stage in the investment process, where we decide which holdings to include in each portfolio. Implementation aims to capture the characteristics of each asset class on a cost-efficient basis.

We aim to increase transparency and cost-efficiency of the portfolios by using primarily HSBC Global Asset Management's in-house funds. This provides the added benefit of full line-of-sight into the holdings and strategies of the investment funds within the portfolios.

A focus is maintained on cost efficiency but without compromising the investment outcome. In practice this means using a range of funds, ETFs (exchange-traded funds), direct security investments and derivatives.

Representative overview of the investment process, which may differ by product, client mandate or market conditions.

Ready to get started?

Here's what you need to know.

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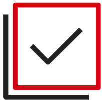
Choosing the right Portfolio for you

- An HSBC Financial Adviser can walk you through the process of selecting the portfolio that fits both your investment goals and the level of risk you're most comfortable with
- Simply contact HSBC Bank Malta p.l.c. for further information

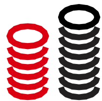


Availability

The HSBC World Selection Portfolios are available to HSBC clients through HSBC Bank Malta p.l.c. Simply contact your HSBC Financial Adviser for further information

Key Investor Information Documents (KIIDs), Fund Factsheets and other key documents can be found at www.assetmanagement.hsbc.com.mt

Please click for further information.



Charges

The total manufacturing cost or Ongoing Charges Figure (OCF) of the HSBC World Selection Portfolios is made up of four main components:

Annual Management Charge (AMC): This is the fee levied by the Authorised Corporate Director (ACD) for carrying out its duties and responsibilities. As well as covering investment management costs and associated costs such as analysis and research, it also covers the product management costs.

Registration Fee: Registration services are all those activities required to administer a share register which would include processing sales and redemptions, paying distributions, updating the register for client changes and dealing with their queries.

External Costs: These costs will cover transaction costs, depositary fees, licence fees etc. of the underlying vehicles held in the HSBC World Selection Portfolios, as well as the AMC of any fulfilment vehicles where applicable. External costs will change dependent on portfolio weightings and positions.

Additional Expenses: Additional expenses for the HSBC World Selection Portfolios at fund level. These will include World Selection's transaction costs, depositary fees, audit fees, safe custody.

For details on the portfolios' OCFs please check the latest Key Investor Information Document (KIID).

Next steps

Contact an HSBC Financial Adviser today. The sooner you start investing – the closer you'll be to realising your dreams.

Key Risks

The HSBC World Selection Portfolios are monitored continuously by our investment managers to ensure the funds deliver as per the aim of the funds, as these are set out in the fund prospectus. The key types of risk associated with the HSBC World Selection Portfolios' asset allocations are as follows (please refer to the KIID for the full list):

1. Equity risks

Market fluctuations can affect the performance of an investment fund both upwards and downwards. You may not get back the full amount invested.

2. Emerging markets risk

Emerging economies typically exhibit higher levels of investment risk. Markets are not always well regulated or efficient and investments can be affected by reduced liquidity.

3. Exchange rate risk

Investing in assets denominated in a currency other than that of your own currency, exposes the value of the investment to exchange rate fluctuations.

4. Fixed income risk

As interest rates rise debt securities will fall in value. Issuers of debt securities may fail to meet their regular interest and/or capital repayment obligations. All credit instruments therefore have potential for default. Higher yielding securities are more likely to default.

5. Real estate risk

Cost of acquisition and disposal, taxation, planning, legal, compliance and other factors can materially impact real estate valuation.

Jargon Buster

A

Alternative asset classes

Alternative investments are assets that do not fall into the traditional asset class categories such as shares, bonds and cash; and can include property, and commodities such as gold.

Asset Backed Securities

Asset-backed securities are a type of debt instrument backed by a pool of assets, such as mortgages or other financial products. These assets are typically pooled in this manner because they can be illiquid and difficult to buy or sell individually.

C

Commodities

Commodities are raw materials such as food, grains, and metals, which a fund manager is able to buy or sell, usually through futures contracts which are agreements to buy or sell at an agreed upon price on a specific date. The price of a commodity is subject to supply and demand.

Corporate Bonds

A bond issued by a company to raise money. In return for lending the company money the investor will receive interest payments (coupon) plus the return of the original investment when the bond matures.

D

Debt securites

Debt securities are issued by governments or corporates to raise funding. Examples of debt securities include corporate bonds and Gilts, which are loans to the UK government.

Default Risk

Default risk is the possibility that an issuer of a debt security, such as a bond, will be unable to make interest payments or repaid the original investment (principal) when the bond matures.

Derivatives

Unlike stocks and bonds, a derivative is usually a contract rather than an asset. Its value is determined by fluctuations in the underlying asset. Futures and options are two commonly traded types of derivatives. An options contract gives the owner the right to buy or sell an asset at a set price on or before a given date. On the other hand, the owner of a futures contract is obligated to buy or sell the asset.

E

Emerging Market Debt

Bonds issued by emerging market governments or corporates. Hard currency debt refers to emerging market bonds denominated in a so called ‘hard currency’, typically US dollars. Local currency debt refers to emerging market bonds issued in their local market currencies.

Equities/Shares

Equities is another name for shares. A share is a stake in the company that has issued it. The value of the shares will depend on a number of factors including how well the company is performing financially.

Exchange-Traded Funds

An exchange-traded fund (ETF) is a fund that aims to replicate the performance of an index or group of assets. It is traded on a stock exchange, like shares andbonds.

G

Government Bonds or Gilts

A loan to a national government in return for which the lender receives regular payments, (known as the coupon) and a promise that the original investment (principal) is paid back at a specified date. Gilts are loans to the UKgovernment.

H

High Yield Bonds

Bonds issued by companies of lower credit quality. These companies are more likely to default but provide a higher yield than investment grade (higher credit quality) bonds.

R

Real Terms

Real value removing the effects of inflation. For example, inflationary effects will mean that in real terms £1 today will be worth less, and have a lower purchasing power, in the future.

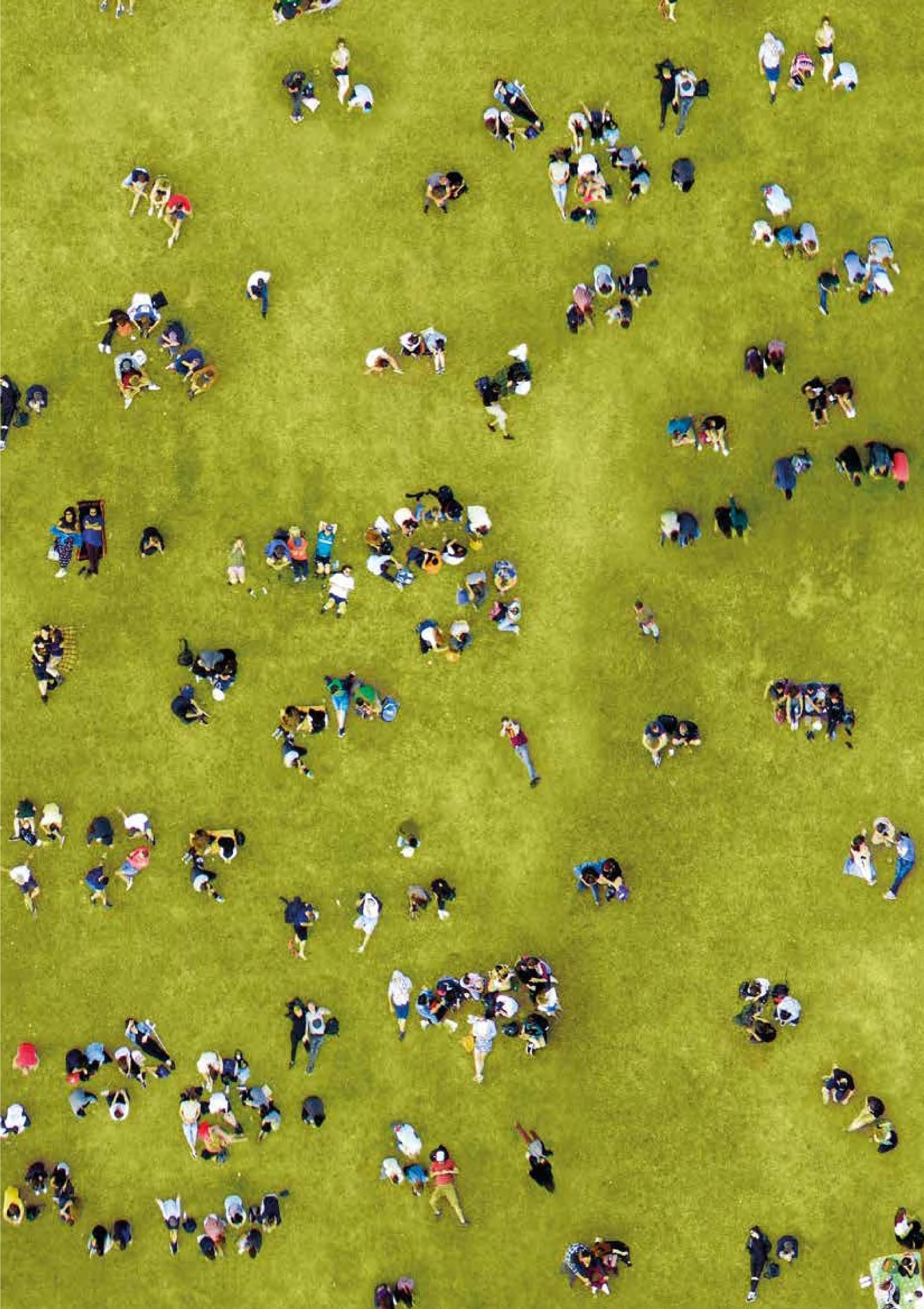
Reduced liquidity

Reduced liquidity is the limited ability or inability to buy or sell an asset easily and quickly.

V

Volatility

Volatility is a measure of how much a fund or security's price goes up or down as a percentage of its total value. For example, the price of a money market fund will typically change very little from day to day and has low volatility. A fund investing in shares is exposed to stock market variations and has a higher volatility. The higher the volatility of a fund, then generally the greater the investment risk.



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