

# HSBC Global Investment Funds - Global Lower Carbon Bond

Share Class AC

28 Feb 2019

## Fund Objective and Strategy

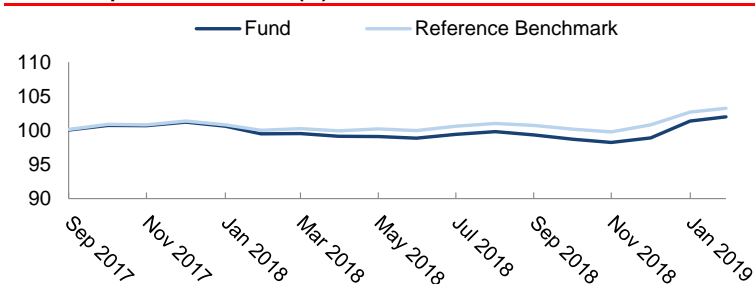
### Investment Objective

The Fund invests for long-term total return (meaning capital growth and income) in a portfolio of bonds issued by companies. The fund aims to create a portfolio that has a lower carbon footprint than its reference benchmark Bloomberg Barclays Global Aggregate Corporates Diversified Index Hedged USD.

### Investment Strategy

In normal market conditions, at least 90% of the Fund's assets are invested in Investment Grade and Non-Investment Grade bonds. Bonds in which the fund may invest include green bonds which finance projects with climate or other sustainability purposes, as well as asset backed and mortgage backed securities. The Fund will invest in both developed and emerging markets. The Fund can invest up to 10% of its assets in asset-backed securities and mortgage-backed securities. The Fund can also invest up to 10% of its assets in contingent convertible securities. The Fund may invest up to 10% of its assets into other funds. The Fund's primary currency exposure is to the US dollar. Up to 10% of its assets, the Fund may have exposure to non- US dollar currencies including emerging market currencies. See the Prospectus for a full description of the Investment Objectives and derivative usage.

## Since Inception Performance (%)



Performance (%)	YTD	1M	3M	1Y	3Y <sup>1</sup>	5Y <sup>1</sup>	Since Inception <sup>1</sup>
AC	3.12	0.59	3.82	2.50	-	-	1.39
Reference Benchmark	2.39	0.53	3.47	3.21	-	-	2.26

Rolling Performance (%)	28 Feb 2018- 28 Feb 2019	28 Feb 2017- 28 Feb 2018	29 Feb 2016- 28 Feb 2017	28 Feb 2015- 29 Feb 2016	28 Feb 2014- 28 Feb 2015
AC	2.50	-	-	-	-
Reference Benchmark	3.21	-	-	-	-

## Share Class Details

UCITS V Compliant	Yes
Distribution Type	Accumulating
Dealing Frequency	Daily
Valuation Time	17:00 Luxembourg
Min. Initial Investment	USD 5,000
Ongoing Charge Figure <sup>2</sup>	1.050%
Base Currency	USD
Domicile	Luxembourg
ISIN	LU1674672883
Inception Date	27 Sep 2017
NAV per Share	USD 10.20
Fund Size	USD 82,706,070
Bloomberg Ticker	HSGLACU LX
Reference Benchmark	Bloomberg Barclays Global Aggregate Corporates Diversified Hedged USD
Manager	Jerry Samet Beatrice de Saint Leve

**Past performance is not an indicator of future returns. The figures are calculated in the share class base currency, dividend reinvested, net of fees.**

Source: HSBC Global Asset Management, data as at 28 February 2019

<sup>1</sup>Result is annualised when calculation period is over one year.

<sup>2</sup>Ongoing Charges Figure, is based on expenses over a year. The figure includes annual management charge but not the transaction costs. Such figure may vary from time to time.

## Risk Disclosure

- The Fund's unit value can go up as well as down, and any capital invested in the Fund may be at risk.
- The Fund invests in bonds whose value generally falls when interest rates rise. This risk is typically greater the longer the maturity of a bond investment and the higher its credit quality. The issuers of certain bonds, could become unwilling or unable to make payments on their bonds and default. Bonds that are in default may become hard to sell or worthless.
- The Fund may invest in Emerging Markets, these markets are less established, and often more volatile, than developed markets and involve higher risks, particularly market, liquidity and currency risks.
- Derivatives may be used by the Fund, and these can behave unexpectedly. The pricing and volatility of many derivatives may diverge from strictly reflecting the pricing or volatility of their underlying reference(s), instrument or asset.
- Investment Leverage occurs when the economic exposure is greater than the amount invested, such as when derivatives are used. A Fund that employs leverage may experience greater gains and/or losses due to the amplification effect from a movement in the price of the reference source.
- Further information on the Fund's potential risks can be found in the Key Investor Information Document and Prospectus.

3-Year Risk Measures	AC	Reference Benchmark
Volatility	-	-
Sharpe Ratio	-	-
Tracking Error	-	-
Information Ratio	-	-

5-Year Risk Measures	AC	Reference Benchmark
Volatility	-	-
Sharpe Ratio	-	-
Tracking Error	-	-
Information Ratio	-	-

Characteristics	Fund	Reference Benchmark	Relative
Number of Holdings ex Cash	533	10,600	-
Average Coupon	3.07	3.23	-0.16
Option Adjusted Duration (OAD) <sup>3</sup>	6.10	6.17	-0.08
Yield to Worst (Gross)	2.96	2.64	0.32

Characteristics	Fund	Reference Benchmark	Relative
Modified Duration to Worst	6.10	6.12	-0.02
Option Adjusted Spread Duration (OASD) <sup>4</sup>	6.82	6.32	0.51
Rating Average <sup>5</sup>	A/A-	A-/BBB+	-
Maturity Average	8.79	8.24	0.54

Credit Quality Rating Allocation (%)	Fund	Reference Benchmark	Relative
AAA	8.50	1.15	7.34
AA	6.86	9.31	-2.45
A	32.42	37.09	-4.67
BBB	46.53	52.44	-5.91
BB	0.89	-	0.89
Cash	4.79	-	4.79

Sorted from highest to lowest rating. Cash is not included in any rating.

Maturity Breakdown (OAD)	Fund	Reference Benchmark	Relative
0-2 years	0.07	0.14	-0.07
2-5 years	0.93	1.12	-0.19
5-10 years	2.26	2.14	0.12
10+ years	2.83	2.77	0.06
<b>Total</b>	<b>6.10</b>	<b>6.17</b>	<b>-0.08</b>

Sorted from shortest to longest per the length of maturity.

Currency Allocation (%)	Fund	Reference Benchmark	Relative
USD	99.81	100.00	-0.19
GBP	0.15	-	0.15
EUR	0.04	-	0.04

Sorted from largest to smallest per market values of weight.

Top 10 Holdings (%)	Weight (%)
US TREASURY NOTES 2.625 31/01/26	2.28
US TREASURY NOTES 2.500 28/02/21	1.74
US TREASURY BONDS 3.375 15/11/48	1.28
DUKE ENERGY CAROLINAS LLC 3.950 15/11/28	1.26
SANTANDER UK GROUP HLDINGS 4.796 15/11/23	1.25
METLIFE GLOBAL FUNDING 3.450 09/10/21	1.22
UNILEVER CAPITAL CORP 3.250 07/03/24	1.22
ROYAL BANK OF CANADA 3.455 05/10/23	1.19
ANDEAVOR LOGISTICS LP /CORP 4.250 01/12/27	1.19
BARCLAYS PLC 4.610 15/02/22	1.10

Sector Allocation (%)	Fund	Reference Benchmark	Relative
Financial Institutions	43.97	37.54	6.43
Consumer Non cyclical	8.74	13.95	-5.21
Treasuries	8.65	-	8.65
Communications	7.23	8.58	-1.35
Energy	6.39	6.22	0.17
Utility	5.33	8.13	-2.80
Consumer Cyclical	4.90	8.26	-3.36
Basic Industry	2.53	3.38	-0.86
Technology	2.40	4.47	-2.08
Transportation	1.79	3.26	-1.47
Other Sectors	3.30	6.22	-2.92
Cash	4.79	-	4.79

Only top 10 breakdowns are displayed. Other breakdowns are included in Others.

Geographical Allocation (%)	Fund	Reference Benchmark	Relative
United States	43.18	45.13	-1.95
United Kingdom	11.75	11.44	0.32
France	9.80	10.10	-0.31
Germany	7.03	7.60	-0.57
Netherlands	4.32	3.90	0.42
Canada	3.14	1.54	1.60
Spain	2.94	2.53	0.42
Switzerland	2.13	2.35	-0.22
Australia	2.12	2.29	-0.17
Italy	1.55	2.28	-0.74
Other Locations	7.25	10.84	-3.59
Cash	4.79	-	4.79

Only top 10 breakdowns are displayed. Other breakdowns are included in Others.

<sup>3</sup>OAD, Option Adjusted Duration, excludes interest rate futures, bond futures and excess return from interest rate swaps.

<sup>4</sup>OASD, Option Adjusted Spread Duration, excludes interest rate futures, bond futures and excess return from interest rate swaps.

<sup>5</sup>Average credit rating uses 'Index rating' which is an average of the vendors: S&P, Fitch, Moody's. The average fund and benchmark rating does not include securities rated NR or NA.

Source: HSBC Global Asset Management, data as at 28 February 2019



Carbon Footprint	Fund	Reference Benchmark
Carbon Intensity	81.64	228.37

Carbon Intensity measures the quantity of carbon emission of a company (tonnes CO<sub>2</sub>e/USD million)

#### Ten Lowest Carbon Intensity Issuers

Fund	Carbon Intensity (tonnes CO <sub>2</sub> e/USD million)	Reference Benchmark	Carbon Intensity (tonnes CO <sub>2</sub> e/USD million)
SCOR 3 7/8 10/31/49	0.41	STOREBRAND ASA	0.10
CNP ASSURANCES	0.52	GREAT-WEST LIFECO DEL FI	0.34
LEGAL & GENERAL FINANCE PLC	0.62	FERMACA ENTERPRISES S DE RL	0.37
SWISS REINSURANCE CO	0.74	SCOR	0.41
FRIENDS PROVIDENT LIFE	0.78	JUST GROUP PLC	0.44
DEUTSCHE ANNINGTON FINANCE	0.78	ABN AMRO BANK NV	0.44
AVIVA PLC	0.78	MEDIOBANCA	0.46
UNITEDHEALTH GROUP INC	1.02	CNP ASSURANCES	0.52
SAMPO OYJ	1.08	SPAREBANKEN MIDT-NORGE	0.55
CREDIT AGRICOLE ASSURANCES	1.16	AFFILIATED MANAGERS GROUP I	0.56

#### Ten Highest Carbon Intensity Issuers

Fund	Carbon Intensity (tonnes CO <sub>2</sub> e/USD million)	Reference Benchmark	Carbon Intensity (tonnes CO <sub>2</sub> e/USD million)
YORKSHIRE WATER SRV BRAD	4855.99	TRANSALTA CORP	16993.95
LAFARGEHOLCIM STERLING FINA	4267.79	CHINA SOUTHERN POWER	14593.86
CENTRAL NETWORKS WEST PL	3911.71	AMERICAN CAMPUS COMMUNITIES	8191.42
WESTERN POWER DISTRIBUTION	3911.71	EMERA US FINANCE LP	7262.66
FORTUM OYJ	3427.34	TAMPA ELECTRIC	7262.66
RWE AG	2718.21	TECO FINANCE INC	7262.66
ENEL SPA	1411.70	OKLAHOMA GAS & ELECTRIC	6806.03
VOLKSWAGEN GROUP AMERICA	861.10	AMERICAN ELECTRIC POWER	6739.06
MIDAMERICAN ENERGY CO	816.94	INDIANA MICHIGAN POWER	6739.06
ELECTRICIDADE DE PORTUGAL	816.94	OHIO POWER CO	6739.06

Weighted Average Carbon Intensity	Description	Portfolio's exposure to carbon-intensive companies, expressed in tons CO <sub>2</sub> e/USD million revenue.
	Formula	$\sum_i \left( \frac{\text{current value of investment}_i}{\text{current portfolio value}} * \frac{\text{issuer's Scope 1 and Scope 2 GHG emissions}_i}{\text{issuer's \$M revenue}_i} \right)$
	Methodology	Scope 1 and Scope 2 GHG emissions are allocated based on portfolio weights (the current value of the investment relative to the current portfolio value), rather than the equity ownership approach. Gross values should be used.

Company carbon data can often be "partially disclosed", i.e. partial geographic coverage, or incomplete operational data. Trucost undertakes analysis and research to assess company reported results. The proprietary Trucost model enables an estimate of total emissions which relies on more than just reported financial data. Where securities are not covered by Trucost, HSBC assigns a proxy value based on the average intensity score of comparable companies.

Source of analytics: Trucost/ HSBC



## Monthly Performance Commentary

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### Market Review

Risk assets continued their rally in February as recessionary fears continued to fade and investor sentiment turned more confident in the US. As a result credit spreads tightened over the month. US Treasury yields rose slightly across the curve, steepening slightly with the 2 and 5 year rising 6 and 8 bps respectively while the 10 and 30 year rose 9 bps each. Treasury yields finished at 2.52%, 2.51%, 2.72% and 3.08% for the 2,5,10 and 30 year respectively. Oil continued to rise as trade tensions with China seemed to ease and major oil suppliers including Russia and OPEC boosted investor confidence that supply would be capped. Brent Crude finished at \$66.03 having started the month at \$61.89 p/barrel.

In the US Q4 GDP growth estimates were solid however they showed signs of decline while domestic demand remained robust. Inflation remained just under the Fed's 2% target in January with Core PCE at 1.9% y/y. In Europe the ECB acknowledged recent weakness in growth and agreed the balance of risks to the outlook have moved to the downside. The weak economic data is being primarily driven by the current uncertainties over Brexit, thus keeping any potential rate hikes on hold. While weaker China GDP growth remains stable amidst the on-going US-China trade tensions and weakening credit growth. The Peoples Bank of China continues its easing policy with a reduction in the reserve ratio. Japan looks likely to maintain its expansionary policy for the foreseeable future, though economic growth is tied to any potential outcomes in the current trade issues China is experiencing.

The monthly total return for the broad global corporate Investment Grade market as represented by the Bloomberg Barclays Global Agg Corporates USD Hedged Index was 0.43%. Regionally, US, EUR, GBP, and EM spreads tightened 9, 14, 7 and 17 bps respectively. From a ratings perspective, lower quality bonds outperformed higher quality bonds. US IG new issue supply was \$116 billion issued for February. Euro and Sterling IG new issuance was €50.4 billion and £4.1 billion respectively.

### Fund Review

The strategy's regional allocation was a drag on relative performance due to the overweight to US bonds which underperformed EUR bonds which the strategy was underweight. Issue selection was the main driver of relative performance with positive contributions coming from positioning in the US, EUR and UK segments.

From a regional perspective the strategy is overweight US bonds and underweight EUR bonds and only slightly underweight UK bonds vs the benchmark. The average rating is one notch above the benchmark at A/A- vs A-/BBB+ with an overweight to AAA rated bonds and underweight AA, A and BBB rated bonds. From an industry perspective the strategy's main overweight is in financials where we continue to see attractive valuations as well as lower relative carbon footprints vs industrials. The main underweights are to consumer non-cyclicals capital goods on the basis of rich valuations. The fund is also underweight utilities on tight valuations as well as the heavier relative carbon footprint of the sector vs the overall benchmark. The fund beta is above 1 while the duration is slightly below that of the benchmark on an option adjusted basis.

### Outlook

Global economic growth has moderated. In particular, the Eurozone, UK and Japanese economies have shown signs of slowing down while the US which is later on in the cycle continues to grow at a stronger pace but now also with an outlook for moderating economic activity. Progress on trade negotiations between the US and China have so far been positive for market sentiment and a resolution should continue that trend as it decreases uncertainty. While moderating, we still view the balance of risks tilted towards the gradual build-up of cyclical inflation pressures. This is especially relevant to the US which despite some more recent contradictory data points continues to add jobs at a healthy pace and is operating with little or no spare capacity.

Although debt leverage ratios are at a high for the cycle they have stabilized. Default rates are low and are expected remain below the historical averages. US investment grade issuance remained strong in February with demand also picking up as foreign inflows grow. High yield supply remains historically low but could pick up post earnings while demand increased with continued inflows over the month. We expect credit spreads will be supported in the short term as investors are now less focused on Fed policy and trade issues, which caused considerable uncertainty in 2018. While credit metrics are still somewhat benign at current spread levels with the rally in credit so far in 2019 we are selective especially in lower rated bonds and look to reduce portfolio beta into market strength.



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The fund presented in this document is a sub-fund of HSBC Global Investment Funds, an investment company constituted as a société à capital variable domiciled in Luxembourg. HSBC Global Investment Funds is marketed in Malta in terms of the Directive on Undertakings for Collective Investment Schemes in Transferable Securities (UCITs).

The shares in HSBC Global Investment Funds have not been and will not be registered under the US Securities Act of 1933 and will not be sold or offered in the United States of America, its territories or possessions and all areas subject to its jurisdiction, or to United States Persons.

All applications are made on the basis of the relevant and current HSBC Global Investment Funds prospectus, the Key Investor Information Document of the related Fund (KIID) and the most recent annual and semi-annual reports (when available), which can be obtained upon request free of charge from HSBC Bank Malta p.l.c. which is licensed to conduct Investment Services business by the Malta Financial Services Authority.

The Fund is manufactured by HSBC Investment Funds (Luxembourg) S.A. 16, boulevard d'Avranches, L-1160 Luxembourg ('the Management Company'). The Management Company has appointed HSBC Global Asset Management (Malta) Ltd, 80 Mill Street, Qormi, as Distributor of the Fund with the right to appoint sub-distributors. In Malta, the Fund is distributed to Investors through HSBC Bank Malta p.l.c. (a sub-distributor of HSBC Global Asset Management (Malta) Ltd).

Further information can be found in the Prospectus, the Key Investor Information Document and most recent annual and semi-annual reports, which can be obtained upon request free of charge from HSBC Global Asset Management (Malta) Ltd. or HSBC Bank Malta p.l.c.

Approved by HSBC Global Asset Management (Malta) Ltd, 80 Mill Street, Qormi, which is regulated by the Malta Financial Services Authority under the Investment Services Act.



## Terms of Glossary

**Convertible bond:** a type of bond that the holder can convert into a specified number of shares of common stock in the issuing company or cash of equal value.

**Corporate bond:** a bond issued by a company in order to raise financing.

**Coupon:** the annual interest rate paid on a bond, expressed as a percentage of the face value.

**Credit quality:** one of the principal criteria for judging the investment quality of a bond or bond mutual fund.

**Developed markets:** countries that are most developed in terms of its economy and capital markets.

**Duration:** a measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates.

**Emerging markets (EM):** nations' economies in the process of fast economic growth. Investments in emerging markets are generally considered to be with higher risk.

**Government bond or Gilt:** a loan to a national government in return for 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 UK government.

**High yield bond / Non-investment grade bond:** fixed income security with a low credit rating from a recognised credit rating agency. They are considered to be at higher risk of default, but have the potential for higher rewards.

**Information ratio:** ratio of portfolio returns above/under the returns of a benchmark to the volatility of those returns.

**Investment grade bond:** considered investment grade or IG if its credit rating is BBB- or higher by Standard & Poor's or Baa3 or higher by Moody's.

**Maturity:** the period of time for which a financial instrument remains outstanding.

**Modified duration to worst:** the lowest potential duration that will achieve on a bond without the issuer actually defaulting.

**Option adjusted duration (OAD):** a duration value based on the probability of early redemption call by the bond issuer.

**Option adjusted spread duration (OASD):** estimates the price sensitivity of a bond to a 100 basis-point movement (either widening or narrowing) in its spread relative to Treasuries, taking into account the likelihood of early redemption.

**Sharpe ratio:** a measure for calculating risk-adjusted return, and this ratio has become the industry standard for such calculations.

**Tracking error:** a measure of how closely a portfolio follows the index to which it is benchmarked.

**Volatility:** a measure of how much a fund's price goes up or down as a percentage of its average performance.

**Yield to maturity:** the total return anticipated on a bond if the bond is held until the end of its lifetime, excluding strategic currency hedges for Portfolio/Benchmark calculations. Number is shown in percentage.

**Yield to worst:** the lowest potential yield that can be received on a bond without the issuer actually defaulting, excluding strategic currency hedges for Portfolio/Benchmark calculations. Number is shown in percentage.

**Carbon Intensity Description:** Portfolio's exposure to carbon-intensive companies, expressed in tons CO<sub>2</sub>e/USD million revenue.

**Carbon Intensity Formula:**  $\Sigma((\text{current value of investment}/\text{current portfolio value}) * (\text{issuer's Scope 1 and Scope 2 GHG emissions}/\text{issuer's \$M revenue}))$

**Carbon Intensity Methodology:** Scope 1 and Scope 2 GHG emissions are allocated based on portfolio weights (the current value of the investment relative to the current portfolio value), rather than the equity ownership approach. Gross values should be used.

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