HSBC Portfolios - World Selection 2

Share Class AC

30 Jun 2019

Fund Objective and Strategy

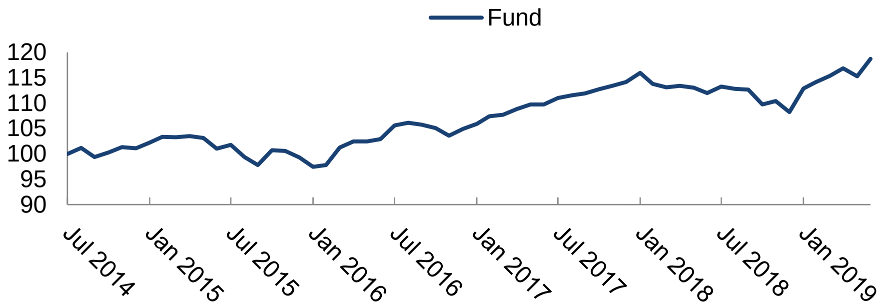
Investment Objective

The Fund aims to provide long term total returns (meaning income and capital growth). It does so by investing in bonds and shares, either directly or through investing into other funds. The Fund seeks to apply a low to medium risk investment strategy.

Investment Strategy

At least 90% of the fund’s exposure is to bonds, shares and other asset classes (for example, real estate, private equity, hedge fund strategies and commodities). The Fund gains exposure to bonds that are investment and non-investment grade. These bonds can be issued/guaranteed by governments, government agencies or supranational bodies or by companies in both developed and emerging markets. These bonds can be denominated in various currencies. The Fund gains exposure to shares and equity-equivalent securities issued by companies in both developed and emerging markets. There aren’t restrictions on the size of the companies held in the Fund. The Fund may invest up to 100% of its assets in other eligible funds. The Fund’s exposure to such holdings will normally be between 25% and 75%. The fund’s primary currency exposure is to the US dollar. See the Prospectus for a full description of the investment objectives and policy.

Performance (%)



Performance (%)	YTD	1M	3M	1Y	3Y[1]	5Y[1]	Vol[2]	S.R.[3]
AC	9.68	3.00	2.90	6.00	4.88	3.46	5.51	0.63

Rolling Performance (%)	30 Jun 2018-30 Jun 2019	30 Jun 2017-30 Jun 2018	30 Jun 2016-30 Jun 2017	30 Jun 2015-30 Jun 2016	30 Jun 2014-30 Jun 2015
AC	6.00	2.09	6.61	1.85	0.87

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 30 June 2019

Share Class Details	
UCITS V Compliant	Yes
UK Reporting Status	Yes
ISA Eligible	Yes
Distribution Type	Accumulating
Dealing Frequency	Daily
Valuation Time	10:00 Luxembourg
Min. Initial Investment	USD 5,000
Ongoing Charge Figure [4]	1.260%
Base Currency	USD
Domicile	Luxembourg
ISIN	LU0447610683
Inception Date	20 Oct 2009
NAV per Share	USD 15.05
Fund Size	USD 584,553,716
Bloomberg Ticker	HSBC2AA LX
SEDOL	B8G04Q3
Manager	Kate Morrissey David McNay

[1]Result is annualised when calculation period is over one year.
[2]Volatility since inception: a measure of how much a fund's price goes up or down as a percentage of its average performance.
[3]Sharpe ratio since inception: a measure for calculating risk-adjusted return, and this ratio has become the industry standard for such calculations.
[4]Ongoing Charges Figure, is based on expenses over a year. The figure includes annual management charge but not the transaction costs. Such figures 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.
• Investing in assets denominated in a currency other than that of the investor’s own currency exposes the value of the investment to exchange rate fluctuations.
• Where overseas investments are held the rate of currency exchange may cause the value of such investments to go down as well as up.
• The Fund invests in bonds whose value generally falls when interest rates rise. This risk is generally 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 value of investible securities can change over time due to a wide variety of factors, including but not limited to: political and economic news, government policy, changes in demographics, cultures and populations, natural or human-caused disasters etc.
• 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.

HSBC Global Asset Management

Monthly Performance Commentary

Macro commentary

Global equities rose in June amid mounting expectations that the US Federal Reserve (Fed) will cut interest rates this year, and easing trade tensions between the US and China. The MSCI All Countries World Index increased by 6.5% over the month.

In the US, a solid labour market continues to underpin economic performance. Underlying inflation also remains subdued. Further escalation in trade tensions is the main downside risk to growth, particularly if confidence takes a significant hit. A lack of inflation pressure and increased downside risks to growth have raised the probability of Fed interest rate cuts this year.

Latest surveys in the Eurozone continue to show a significant divergence between a resilient services sector and a weaker manufacturing sector. At its June meeting, European Central Bank President Draghi opened the door to cutting interest rates, noting renewed asset purchases had been discussed.

In the UK, growth is moderating as support from Brexit-related stockpiling in Q1 unwinds. The Bank of England continues to have a bias to raise interest rates, conditional on a smooth Brexit. However, the outlook remains highly uncertain at present.

In Asia, after a bounce earlier in the year, Chinese activity data have lost momentum. However, ongoing cuts to interest rates still have the potential to stabilise China's economy alongside global trade growth. In India, Modi's election victory is positive for growth in the coming year as election uncertainty is removed. The government's pro-reform agenda is also likely to be supportive.

Economic growth remains slow in Japan in the face of external headwinds and a loss of momentum in business investment. This year's consumption tax hike also presents a risk.

The backdrop for emerging markets has improved in light of the change in Fed policy, lower US bond yields, and China's interest rate cuts. Emerging market central banks have also switched from tightening into easing mode (lower interest rates) amid a dovish Fed and generally subdued inflation. However, geopolitical risks also remain prevalent, including lingering trade tensions.

Portfolio performance

Our general preference for risk assets added value to portfolio returns in June with equity asset classes outperforming fixed income. Within equities, emerging markets performed well, meaning our preference here also added.

In June, the Portfolio Management team reduced the overweight position in emerging market equities to add to US equities which moves to a neutral position. This trade is to reduce portfolio risk in view of lingering trade tensions.

The team also reduced Japan equities further given its relative weakness over recent months and economic uncertainty.

The World Selection portfolios are long-term investment solutions that seek to maximise risk-adjusted returns (Sharpe ratios) in the long run.

Outlook

Our global Nowcast economic forecasting tool remains below our sense of trend growth, although there has been a modest pick up since the low point in February. Growth remains above trend in the US, but below trend elsewhere.

Chinese activity data have been volatile and have not built on the bounce seen in March/April. However, our leading indicator points to further upside, which would support the global manufacturing cycle.

In our view, the global economy remains a long way from a severe recessionary environment. But the flare-up in tensions between the US and China has increased downside risks.

Inflation remains muted even in the US where, despite a tight labour market, unit labour costs have weakened and inflation expectations fallen.

This lack of inflation pressure has allowed the US Federal Reserve to adopt a more dovish tone amid increased downside risks to growth. Some "insurance" interest rate cuts later this year seem likely.

A number of emerging market asset classes are relatively attractively-priced and have potential to outperform if key risks do not materialise.

The market is now pricing a lower-for-even-longer rate scenario. But even if this scenario materialises, relative valuations continue to suggest a preference for equities versus bonds. Positioning

Fixed Income

The portfolios have remained underweight fixed income assets as yields and potential returns have remained low.

Corporate bonds are looking relatively expensive and prospective returns are still not high enough in our view. We look elsewhere for better ways to back global growth.

Riskier, EM debt securities remain attractive in our view, especially in local currencies where potential currency appreciation could provide a tailwind to performance. However, it is important to be selective.

Equities

We retain our view that the most effective way to access the global growth story is through equities. Our leading indicator suggests that we are not yet at the end of the economic cycle.

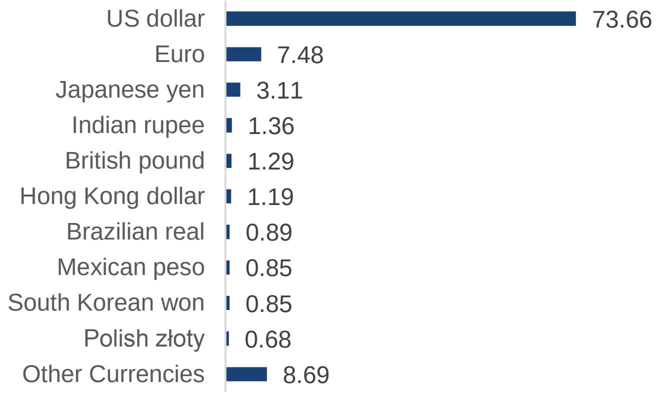
We have reduced Japan and EM equity modestly, and increased US equity in order to lower portfolio risk in view of lingering trade tensions. We continue to have a preference for UK equity as UK markets have underperformed and valuations currently look appealing to us.

EM equity continues to be supported by interest rate cuts in China and a dovish Fed. Valuations have improved and there is potential for improvement in macroeconomic performance in 2019.

Portfolio

Portfolio Asset Allocation (%)	
Global Equity	28.16
Global Fixed Income	57.19
Global Government Bond	7.58
Global Corporate Bond	28.05
Global High Yield Bond	4.50
Global Asset Backed Bond	5.02
Emerging Market Debt - Hard Currency	4.54
Emerging Market Debt - Local Currency	7.50
Property	4.90
Style Factors	2.04
Trend Following	3.12
Cash	4.59

Currency Exposure at Portfolio Level (%)



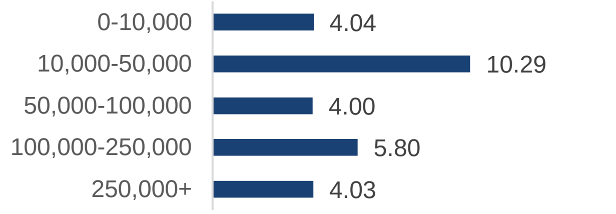
Portfolio Top 10 Holdings	Weight (%)
HSBC FTSE ALL-WORLD INDEX INSTL ACC	18.32
HSBC GIF GLOBAL GOVERNMENT BOND ZQ1	7.72
HSBC GIF GLOBAL EM MKTS LOCAL DBT ZQ1	6.99
HGIF GLOBAL ASSET BACKED BOND ZC	5.02
HSBC GIF GLOBAL REAL ESTATE EQ ZQ1	4.90
HSBC GIF GLOBAL EMERG MKTS BD ZQ1	4.54
HSBC US DOLLAR LIQUIDITY Y	3.84
HSBC GIF GLOBAL HIGH YIELD BOND ZQ1	3.55
HSBC ECONOMIC SCALE WORLDWIDE EQUITY ETF	2.23
VANGUARD FTSE ALL-WORLD UCITS ETF	2.12

Source: HSBC Global Asset Management, data as at 30 June 2019.

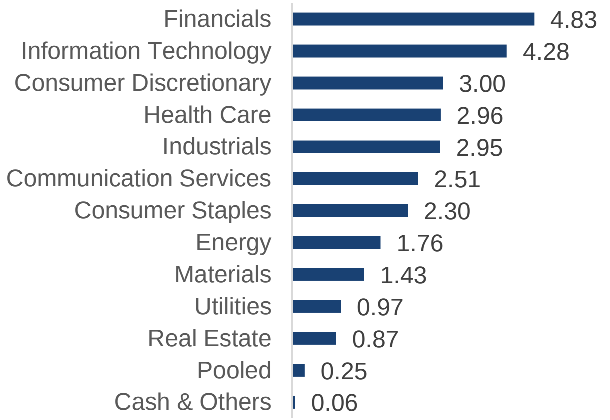
Equity

Equity Characteristics	
P/E Ratio	14.50
Weighted Average Market Cap (USD Mil)	138,617.80
Dividend Yield	2.55

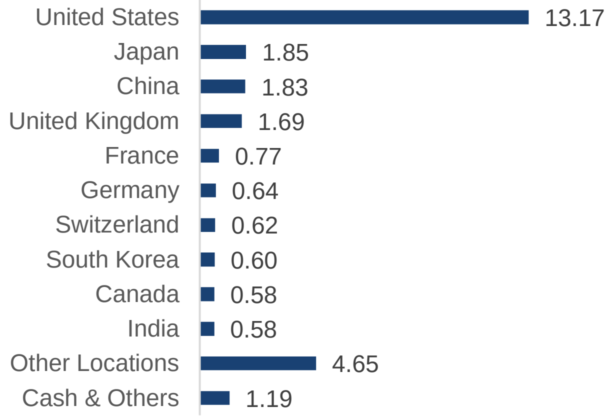
Equity Average Market Cap Breakdown (USD Mil, %)



Equity Sector Allocation (%)



Equity Geographical Allocation (%)



Equity Top 10 Holdings	Location	Sector	Weight (%)
MICROSOFT CORP	United States	Information Technology	0.58
APPLE INC	United States	Information Technology	0.51
AMAZON.COM INC	United States	Consumer Discretionary	0.42
FACEBOOK INC-CLASS A	United States	Communication Services	0.26
JOHNSON & JOHNSON	United States	Health Care	0.21
JPMORGAN CHASE & CO	United States	Financials	0.20
ALPHABET INC-CL A	United States	Communication Services	0.18
EXXON MOBIL CORP	United States	Energy	0.18
ALPHABET INC-CL C	United States	Communication Services	0.18
BERKSHIRE HATHAWAY INC-CL B	United States	Financials	0.17

Please note some securities are unclassified against these sector and/or country schemes and will therefore appear under the Cash & Others category.

The data displayed in above sections is shown on a look-through basis. This means that the fund may not directly hold these securities and the investment in these securities may be via other funds.

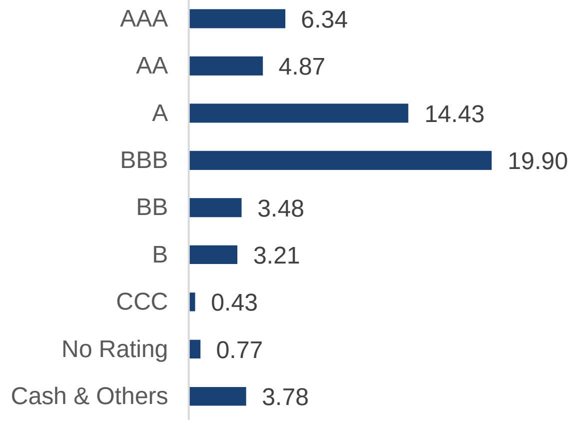
Source: HSBC Global Asset Management, data as at 30 June 2019.

Fixed Income

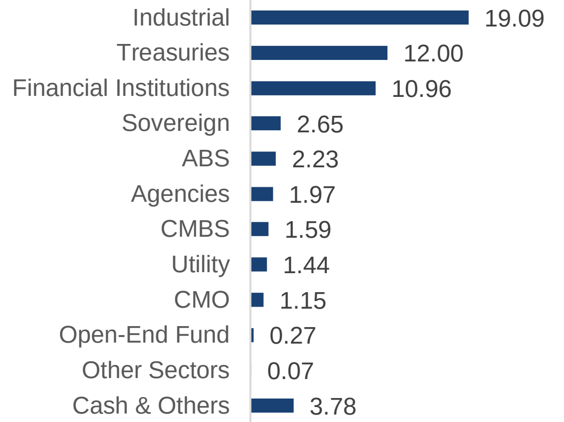
Fixed Income Characteristics	
Yield to Maturity (Gross)	4.15
Yield to Worst (Gross)	4.10

Fixed Income Characteristics	
Option Adjusted Duration	5.86
Rating Average	A/A-

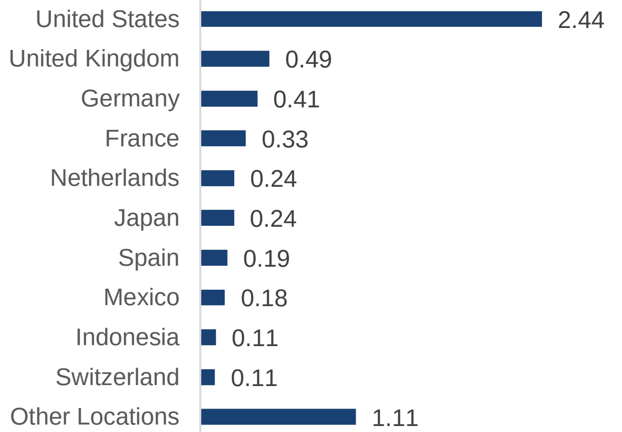
Fixed Income Quality Rating Allocation (%)



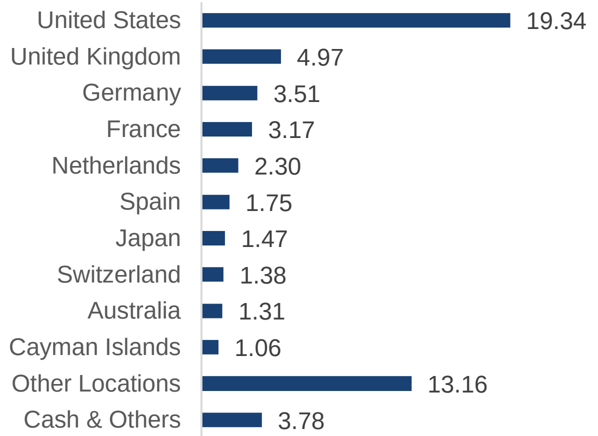
Fixed Income Sector Allocation (%)



Fixed Income Option Adjusted Duration Allocation by Location



Fixed Income Geographical Allocation (%)



Fixed Income Top 10 Holdings (USD Mil)	Location	Instrument Type	Weight (%)
CAR 2019-G1V B	Ireland	Asset backed	5.01
LETRA TESOURO NACIONAL 0.0000 01-JAN-20	Brazil	Treasury Bills	0.58
DELL INT LLC / EMC CORP 4.9000 01-OCT-26	United States	Corporate Bond	0.33
WILLIAMS COMPANIES INC 4.3000 04-MAR-24	United States	Corporate Bond	0.30
JPMORGAN CHASE & CO 3.8750 10-SEP-24	United States	Corporate Bond	0.28
IBM CORP 0.3750 31-JAN-23	United States	Corporate Bond	0.28
BUNDESREPUB. DEUTSCHLAND 0.5000 15-FEB-26	Germany	Government Bond	0.27
HCP INC 3.8750 15-AUG-24	United States	Corporate Bond	0.25
CREDIT SUISSE NEW YORK 3.6250 09-SEP-24	Switzerland	Corporate Bond	0.25
RCI BANQUE SA 1.7500 10-APR-26	France	Corporate Bond	0.25

Please note that the fixed income allocation tables are calculated using contributions to the fixed income portion, with the equity portion excluded here.

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Source: HSBC Global Asset Management, data as at 30 June 2019.

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Further Information can be found in the prospectus.

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.
Rating: rating of a debtor (credit rating) by rating agencies is based on specific criteria such as debt situation, country risk etc. Ratings from Moody's and Standard & Poor's® is the most widely used systems in the international markets with range from AAA and Aaa (highest credit rating) to D (Debtor in financial difficulties, repayment already distressed).
NAV: stands for net asset value. It is used on funds and represents the value of all assets and receivables less debt, liability and costs. Typically, it is reported as a value per share.
Swap: a derivative contract through which two parties exchange financial instruments. E.g. in an interest swap, typically one contracting party pays a fixed interest while the other pays a variable interest.
Futures: a financial contract obligating the buyer to purchase an asset (or the seller to sell an asset), such as a physical commodity or a financial instrument, at a predetermined future date and price.
Shares: units of ownership interest in a corporation or financial asset that provide for an equal distribution in any profits, if any are declared, in the form of dividends. The two main types of shares are common shares and preferred shares. Physical paper stock certificates have been replaced with electronic recording of stock shares, just as mutual fund shares are recorded electronically.
Bond: a fixed income investment in which an investor loans money to an entity (typically corporate or governmental) which borrows the funds for a defined period of time at a variable or fixed interest rate. Bonds are used by companies, municipalities, states and sovereign governments to raise money and finance a variety of projects and activities. Owners of bonds are debt holders, or creditors, of the issuer.
Price Earnings (P/E) Ratio: the price paid for a share divided by the annual profit earned by the firm per share.
Dividend Yield: represents the ratio of distributed income over the last 12 months to the fund’s current Net Asset Value.
Market capitalization: refers to the total dollar market value of a company's outstanding shares. Commonly referred to as "market cap," it is calculated by multiplying a company's shares outstanding by the current market price of one share.