

HSBC Investment Funds - Gilt & Fixed Interest Fund

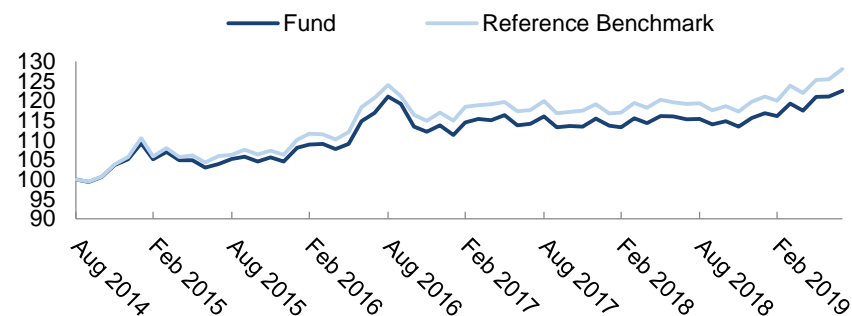
Share Class CC

31 Jul 2019

Fund Objective and Strategy

This Fund aims to provide a regular and competitive level of income from an underlying portfolio of gilts and other highly rated fixed interest securities.

Performance (%)



Performance (%)	YTD	1M	3M	1Y	3Y ¹	5Y ¹
CC	6.00	1.24	4.32	6.32	1.58	4.74
Reference Benchmark	6.90	2.06	5.00	7.44	1.97	5.76

Rolling Performance (%)	31 Jul 2018-31 Jul 2019	31 Jul 2017-31 Jul 2018	31 Jul 2016-31 Jul 2017	31 Jul 2015-31 Jul 2016	31 Jul 2014-31 Jul 2015
CC	6.32	0.96	-2.35	12.56	6.86
Reference Benchmark	7.44	1.27	-2.54	13.97	9.49

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 31 July 2019

Risk Disclosure

- The value of investments and any income from them can go down as well as up and you may not get back the amount originally invested.
- A small movement in the value of the underlying asset can cause a large movement in the value of the derivative. Investing in derivatives involves leverage. High degrees of leverage can magnify the impact of asset price or rate movements.
- Changes in currency exchange rates will cause the value of investments to fluctuate. □
- All credit instruments have potential for default. Higher yielding securities are more likely to default.
- Relative yield and the capital values may be reduced by rising interest rates.

Share Class Details

UCITS V Compliant	Yes
ISA Eligible	Yes
Distribution Type	Accumulating
Dealing Frequency	Daily
Valuation Time	12:00 United Kingdom
Min. Initial Investment	GBP 1,000,000
Ongoing Charge Figure ²	0.430%
Base Currency	GBP
Domicile	United Kingdom
ISIN	GB00B8BFCR07
Inception Date	03 Dec 2012
NAV per Share	GBP 5.04
Fund Size	GBP 68,498,627
Bloomberg Ticker	HSGFICA LN
SEDOL	B8BFCR0
Reference Benchmark	FTSE Actuaries UK Conventional Gilts All Stocks Index plus 0.75% per year
Manager	Richard Balfour

¹Result is annualised when calculation period is over one year.

²Ongoing 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.

3-Year Risk Measures	CC	Reference Benchmark
Volatility	6.13%	6.02%
Sharpe Ratio	0.16	0.23
Tracking Error	1.42%	-
Information Ratio	-0.28	-

5-Year Risk Measures	CC	Reference Benchmark
Volatility	6.57%	6.84%
Sharpe Ratio	0.63	0.76
Tracking Error	1.40%	-
Information Ratio	-0.73	-

Characteristics	Fund	Reference Benchmark	Relative
Number of Holdings ex Cash	36	46	-
Average Coupon	3.22	3.44	-0.22
Option Adjusted Duration (OAD) ³	11.79	12.13	-0.34
Yield to Worst (Gross)	0.87	0.85	0.02
Yield to Maturity (Gross)	0.87	0.85	0.02

Characteristics	Fund	Reference Benchmark	Relative
Current Yield (Gross)	2.40	2.55	-0.15
Modified Duration to Worst	11.64	11.95	-0.31
Rating Average ⁴	AA/AA-	AA	-
Maturity Average	15.84	16.30	-0.46
Number of Issuers	7	1	-

Credit Quality Rating Allocation (%)	Fund	Reference Benchmark	Relative
AAA	1.09	-	1.09
AA	96.48	100.00	-3.52
A	2.40	-	2.40
Cash	0.03	-	0.03

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

Sector Allocation (%)	Fund	Reference Benchmark	Relative
Gilts	94.78	100.00	-5.22
Non-financials	1.69	-	1.69
Financials	1.39	-	1.39
Agencies	1.09	-	1.09
Industrials	1.01	-	1.01
Cash	0.03	-	0.03

Sorted from largest to smallest per market values of weight.

Maturity Breakdown (OAD)	Fund	Reference Benchmark	Relative
0-3 years	0.22	0.29	-0.07
3-5 years	0.48	0.31	0.17
5-10 years	0.87	1.17	-0.30
10-15 years	0.86	0.72	0.15
15-20 years	1.33	1.48	-0.15
20-30 years	3.55	3.39	0.15
30+ years	4.48	4.77	-0.30
Total	11.79	12.13	-0.34

Sorted from shortest to longest per the length of maturity.

Top 10 Holdings (%)	Weight (%)
UK TSY GILT 4.250 07/12/55	8.52
UK TSY GILT 4.250 07/03/36	7.57
UK TSY GILT 1.750 07/09/22	7.42
UK TSY GILT 1.625 22/10/28	7.10
UK TSY GILT 2.250 07/09/23	6.62
UK TSY GILT 4.250 07/06/32	6.13
UK TSY GILT 4.250 07/12/46	5.83
UK TSY GILT 4.750 07/03/20	5.54
UK TSY GILT 2.500 22/07/65	5.37
UK TSY GILT 4.250 07/12/40	4.25

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

⁴Average credit rating uses 'Index rating' which is an average of 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 31 July 2019

Monthly Performance Commentary

Market Overview

Sterling corporate bond prices rose in July, with 10-year Gilt yields falling sharply (prices rising) as the 10-year Gilt fell 22 bps to 0.62%.

Bank of England's (BoE) Monetary Policy Committee unanimously voted to keep interest rates on hold at 0.75% in its August meeting, in line with expectations. The bank lowered its GDP growth forecast for 2019 to 1.3% from 1.5% and lowered its 2020 forecast to 1.3% from 1.6%, citing a slowdown in global growth. The BoE did not provide details on the potential impact of a no-deal or disorderly Brexit. Forward looking economic growth indicators look grim across all sectors. Construction and manufacturing indicators are in levels that signal an upcoming negative growth while Services sector seems to be holding just above contraction. The monthly UK GDP figure came out at 0.3% 3m/3m, versus an expectation of 0.1%. The RICS House Price Balance rebounded to -1% and most noticeably, Weekly Earnings ex-Bonus 3m/YoY accelerated to 3.6%, the highest level in nearly 11 years. This meant that UK data was a little stronger than anticipated but Gilt yields were kept low by a sense that Boris Johnson's likely victory over Jeremy Hunt increases the probability of a no deal Brexit.

Strategy

The fund value rose sharply in July with performance slightly below the reference benchmark. The small underweight duration through the 10-year Gilt was a negative contributor to relative performance. This negative impact was partially offset by our yield curve steeper position (i.e. an overweight position in 10-year gilts and an underweight in 30-year Gilts) as the yield difference increased. The fund also continues to hold a small off-benchmark position in high quality corporates, which also had a small positive contribution to performance as corporate spread tightened.

Outlook

UK economic momentum remains subdued with increased signs of growth remaining low (or below zero) in the upcoming quarters. Weakening global growth and Brexit remain the main drivers of concern for businesses and hence business investment is likely to remain subdued. However, consumers' confidence remains high largely from a strong labour market, in terms of a low unemployment and solid wage growth. Inflation is likely to remain low (within a controlled Brexit) while Bank of England kept rates unchanged but showed some dovish bias. We do not expect a large shift on monetary policy for now under a 'smooth Brexit' scenario. Lower global yields, weaker global growth and increased possibilities of a non-deal Brexit are likely to keep UK Gilts

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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.