

HSBC Investment Funds - Gilt & Fixed Interest Fund

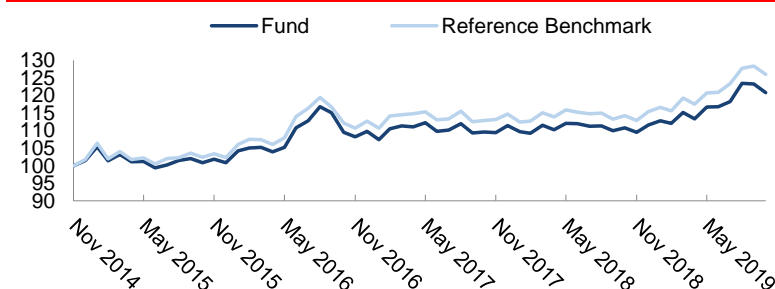
Share Class Accumulation C

31 Oct 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
Accumulation C	8.25	-2.02	2.12	8.99	3.33	4.46
Reference Benchmark	9.89	-1.75	2.36	11.11	4.75	6.16

Rolling Performance (%)	31 Oct 2018-31 Oct 2019	31 Oct 2017-31 Oct 2018	31 Oct 2016-31 Oct 2017	31 Oct 2015-31 Oct 2016	31 Oct 2014-31 Oct 2015
Accumulation C	8.99	1.13	0.09	8.55	3.86
Reference Benchmark	11.11	2.03	1.38	10.28	6.40

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 October 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.
- 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 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.
- 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.
- Liquidity is a measure of how easily the Fund's holdings can be quickly converted to cash. The value of the Fund's holdings may be significantly impacted by liquidity risk during adverse market conditions.
- Further information on the Fund's potential risks can be found in the Key Investor Information Document and Prospectus.

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%
Share Class Base Currency	GBP
Domicile	United Kingdom
ISIN	GB00B8BFCR07
Share Class Inception Date	03 Dec 2012
NAV per Share	GBP 5.15
Fund Size	GBP 66,193,745
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	Accumulation C	Reference Benchmark	5-Year Risk Measures	Accumulation C	Reference Benchmark
Volatility	5.65%	-	Volatility	6.79%	-
Sharpe Ratio	0.48	-	Sharpe Ratio	0.57	-
Tracking Error	1.30%	-	Tracking Error	1.48%	-
Information Ratio	-0.49	-	Information Ratio	-0.62	-

Characteristics	Fund	Reference Benchmark	Relative	Characteristics	Fund	Reference Benchmark	Relative
Number of Holdings ex Cash	39	45	-	Current Yield (Gross)	2.22	2.46	-0.25
Average Coupon	3.07	3.39	-0.32	Modified Duration to Worst	12.59	12.35	0.24
Option Adjusted Duration (OAD) ³	12.66	12.47	0.19	Rating Average ⁴	AA/AA-	AA	-
Yield to Worst (Gross)	0.81	0.78	0.03	Maturity Average	16.79	16.73	0.06
Yield to Maturity (Gross)	0.81	0.78	0.03	Number of Issuers	7	1	-

Credit Quality Rating Allocation (Market Value %)	Fund	Reference Benchmark	Relative	Sector Allocation (Market Value %)	Fund	Reference Benchmark	Relative
AAA	3.69	-	3.69	Gilts	90.12	100.00	-9.88
AA	91.87	100.00	-8.13	Sovereigns	4.29	-	4.29
A	4.23	-	4.23	Non-financials	1.76	-	1.76
Cash	0.20	-	0.20	Financials	1.45	-	1.45
				Agencies	1.13	-	1.13
				Industrials	1.05	-	1.05
				Cash	0.20	-	0.20

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

Sorted from largest to smallest per market values of weight.

Maturity Breakdown (Option Adjusted Duration)	Fund	Reference Benchmark	Relative
0-3 years	0.30	0.30	0.00
3-5 years	0.32	0.32	0.00
5-10 years	1.72	1.13	0.59
10-15 years	0.84	1.04	-0.20
15-20 years	1.50	1.47	0.03
20-30 years	3.16	3.11	0.05
30+ years	4.82	5.10	-0.29
Total	12.66	12.47	0.19

Sorted from shortest to longest per the length of maturity.

Top 10 Holdings (%)	Weight (%)
UK TSY GILT 4.250 07/12/55	8.68
UK TSY GILT 2.250 07/09/23	6.79
UK TSY GILT 1.750 07/09/22	6.61
UK TSY GILT 4.250 07/03/36	6.42
UK TSY GILT 4.250 07/06/32	6.02
UK TSY GILT 2.500 22/07/65	6.01
UK TSY GILT 1.625 22/10/28	5.56
UK TSY GILT 4.250 07/12/40	3.93
UK TSY GILT 0.875 22/10/29	3.86
UK TSY GILT 5.000 07/03/25	3.77

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 October 2019

Monthly Performance Commentary

Market Overview

Gilts lost value in October with 10 year Gilts yields rising by 15 bps to 0.62%. Prices of 2 and 30 year Gilts also fell with yields rising by 13 and 16 bps to 0.5% and 1.14% respectively.

UK GDP fell by 0.1% MoM in August, but was up 0.3% 3m/3m, this while GDP figures for June and July were revised upwards (to 0.1% and 0.4% respectively). September UK PMI (forward looking business surveys) data was broadly weak. Overall manufacturing and construction sectors seem to be in contraction mode while services sector seems to be holding up just below the neutral level (50). Manufacturing came in at 48.3 (consensus 47.0), up from 47.4 in August. The unexpected rise may have come as a consequence of Brexit stockpiling – the 'stocks of purchases' index rose from 49.8 to 53.6 over the same period. Conversely, the construction index continued its decline, falling to a low of 43.3 (from 45.0) this month. The services PMI fell to its lowest level since March 2019 at 49.5 (consensus 50.3). This brought the composite PMI down to 49.3, from 50.2.

In September, UK CPI inflation was steady at 1.7% YoY. Meanwhile, the employment index saw a sharp drop, falling to its lowest level since 2010. Approximately 19% of firms now report to be making cuts to the workforce, whilst business optimism continues to fall. This appears to be in line with labour market data; UK unemployment rose to 3.9% (consensus 3.8%) in August (56k jobs lost), although it appears that part-time jobs have carried the vast majority of losses. Meanwhile, weekly earnings figures continued to rise, reaching 3.9%. From a political perspective, Brexit continues to dominate the news. The most recent extension sees the UK leaving the European Union on January 31st; the political turmoil surrounding this decision, as well as the recently announced general election (December 12th) have meant volatility in Gilts and sterling remains elevated.

Strategy

The fund value fell in October with performance broadly in line with the reference benchmark. The fund kept unchanged its yield curve relative position between 10-year Gilts (overweight) and 30-year Gilts (underweight) as we expect the yield curve (yields across all maturities) to steepen (the difference between 10y and 30y Gilts to increase). We kept our overweight position in Spain relative to the UK and opened an overweight in the US. We believe there is more attractive value in these two countries relative to Gilts. All these positions had minor effects in relative performance. The fund also continues to hold a small off-benchmark position in high quality corporates, which also had no major impact on performance.

Outlook

UK economic growth to remain below trend whilst Brexit uncertainty persists. Business surveys in the UK have weakened significantly through 2019, a combination of slower global growth and the UK-specific factor, which is Brexit. The uncertainty around Brexit has led to weak business investment and reduced economic optimism. Despite low growth, employment remains a bright spot in both the UK and abroad. The unemployment has fallen back to the historical low of 3.8%. Inflation is likely to remain around the Bank of England's target (with a smooth Brexit transition) but could move significantly higher in the event of a disruptive Brexit coupled with supply constraints. We do not expect a large shift on monetary policy for now under a 'smooth Brexit' scenario, but if economic growth weakness remains the possibility of a rate cut would increase. A no deal Brexit would likely lead to cuts in the Bank Rate, taking it towards 0%. We do not expect a strong trend in yields from current levels as Brexit uncertainty has kept yields range-bound. A resolution with a deal would push yields higher with the reverse true in a no deal scenario.

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Contact Information

UK Investor/Adviser Tel: 0800 358 3011

Lines are open 9am to 5pm Monday to Friday (excluding public holidays). To help the ACD and the Administrator continually improve their services and in the interests of security, they may monitor and/or record your communications with them.

Terms of Glossary

Accumulation Share: a type of share where the income earned by the Fund is retained in the Fund

ACD: HSBC Global Asset Management (UK) Limited, the Authorised Corporate Director of the Company

Actively Managed: where the fund manager uses their expertise to pick investments to achieve the fund's objectives

Beta: an historical measure of volatility to measure how a fund moves versus its benchmark (i.e. an Index)

Bond(s): a loan, usually to a company or government, that pays interest

Bond Index Futures: a contract stating that the holder agrees to purchase a bond index at a particular price on a specified future date

Collective Investment Scheme: a fund that more than one person contributes to with the aim of increasing the value of their investments or receiving income from a pooled investment. A fund manager will invest the pooled money into one or more types of asset, such as stocks, bonds or property

Credit Rating: an assessment of the credit risk of a company, government or other organisation. It seeks to measure how likely it is that the issuer of a bond will be able to continue to make interest payments and repay the money loaned to it

Developed Markets: countries with relatively high levels of personal income and established economies

Duration: a measure of how long it takes in years for an investor in a bond to recoup the price they paid for the bond from its interest payments. It provides an indication of how much bond prices are likely to change if and when interest rates change

Emerging Markets (EM): countries that are progressing toward becoming advanced, usually shown by some development in financial markets, the existence of some form of stock exchange and a regulatory body

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

Growth: the increase in the value of investments

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

Hedge Funds: an investment fund that pools money from investors and invests in a variety of assets, often with complex investment strategies and risk management techniques

Hedge or Hedging: using derivative type investments as a way to reduce risk

High yield bond: a bond paying a higher level of interest but which has a lower credit rating than investment grade

Income: money generated by a fund, such as interest from a bond or a dividend from a share, which can be paid out to its investors or paid back into the fund and reinvested

Income Share: the type of Share where the income earned by the Fund is paid out to you

Information Ratio: a measure of the risk-adjusted return of a fund against its benchmark

Investment Grade: a credit rating that indicates the issuer of a bond has a relatively low risk of being unable to make interest payments and repay the money to it

Maturity: the period of time left for a bond or gilt to remain outstanding before the original loan and any final interest is repaid to the lender

Net Asset Value (NAV): the value of the scheme property of a fund less the liabilities of the fund

Ongoing Charges Figure: a measure of what it costs to invest in a fund. It includes the fee paid to the ACD and other operating costs

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

Property-related securities: shares of property companies that own, manage or develop property and Real Estate Investment Trusts (REITs), which are investment companies that own buildings and land

Return(s): the money made or lost on an investment

Share(s): an equally valued holding in a fund of a company, representing part ownership of that fund, (including larger denomination shares and smaller denomination shares)

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

Volatility: a measure of the size and frequency of changes in the value of an investment over a short space of time

Yield: the income from an investment, usually stated as a percentage of the value of the investment

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