

HSBC Fund Update

- HSBC Global Investment Funds - Chinese Equity ("the Fund")



Summary

- ▶ The HSBC GIF Chinese Equity outperformed its benchmark in December
- ▶ From an allocation perspective, our underweight in Consumer Staples, on the back of their relatively expensive valuations was beneficial for performance
- ▶ Our overweight in the Banking sector was also rewarded
- ▶ Despite short term volatility, valuation levels remain very attractive relative to history and to the Asian region, which provides medium/long term investors with a good entry point to the market

Market review

Chinese equities rebounded in December, on the expectation of more policy easing in the near-term, following November's reserve ratio requirement (RRR) cut. The MSCI China, a proxy of the Chinese equity markets, posted a gain of 2.5%. However, overall market sentiment remained weak, due mainly to concerns that weak bank deposit growth and continued capital outflows would restrain monetary growth.

Financials, especially Banks, outperformed in December from distressed valuation levels. Consumer Staples underperformed, having risen to relatively demanding valuations in recent times.

On the economic front, headline numbers continue to echo our view of an economy with a moderating pace of growth. China's manufacturing purchasing manager's index (PMI) registered 50.3 in December, moving back above the expansion threshold after contracting to 49.0 in November. This was driven by broad-based increase across output, new orders and new exports components. Fixed asset investment (FAI) rose only 21.2% year-on-year in November, significantly below the 24.8% year-on-year growth in the first 10 months of the year. It is notable that residential property investment decelerated sharply to 20% year-on-year in November from 28% in October, representing the lowest growth rate since late 2009. Retail sales in November grew a respectable 17.3% year-on-year.

Source of macroeconomic data: Bloomberg as at 30 December 2011. For illustrative purposes only and does not constitute investment recommendation to buy or sell in the above-mentioned sectors/securities.

Portfolio strategy

The HSBC GIF Chinese Equity outperformed its benchmark in December. From an allocation perspective, our underweight in Consumer Staples, on the back of their relatively expensive valuations was beneficial for performance. Our overweight in the Banking sector was also rewarded.

Stock selection was especially positive in the auto sector. Dongfeng Motor Group and Great Wall Motor, both domestic auto manufacturers, were amongst the top performers for the strategy, on the back of strong earnings growth. In addition, we continue to like large banks, given the relative strengths of their fundamentals and the over all distressed valuation levels of the Chinese banking sector. Our portfolio holdings - Industrial & Commercial Bank of China and Agricultural Bank of China - both outperformed strongly in December.

Outlook

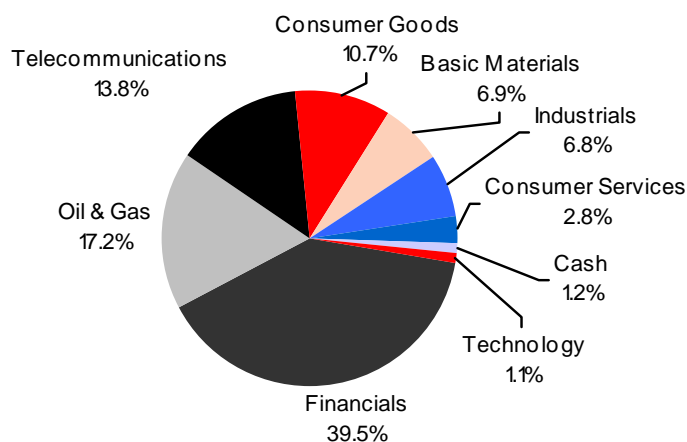
The Central Economic Work Conference, which sets the policy tone and lays out key government targets in 2012, confirmed in December that policies will be more pro-growth amid a changing macro environment. This trend of policy easing and the stronger-than-expected December PMI, reinforces our confidence in a “soft landing” scenario for China in 2012.

With policymakers now putting “maintaining growth” ahead of “taming inflation” when listing the government’s multiple goals in 2012, we think the government is likely to step up fiscal spending, tax reformation and consumption stimulation. Liquidity conditions and credit supply have improved since policy fine-tuning started in October, as shown by stronger monthly new lending and an increase in the sequential money supply trend growth.

While economic headwinds and further earnings downgrades could pose renewed challenges to the market in Q1, money and credit growth will further accelerate, in our view, which could provide buying opportunities early in 2012. Despite short term volatility, valuation levels remain very attractive relative to history and to the Asian region, which provides medium/long term investors with a good entry point to the market.

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Sector allocation[^]



Top 10 holdings[^]

Name	Sector	Weight (%)
China Mobile	Telecommunications	10.0
Industrial and Commercial Bank of China	Banks	9.6
China Construction Bank	Banks	8.0
China Petroleum and Chemical	Oil & gas producers	6.9
Petrochina	Oil & gas producers	4.9
Ping An Insurance	Insurance	4.7
CNOOC	Oil & gas producers	4.7
Bank of China	Banks	4.1
Agricultural Bank of China	Banks	3.2
China Shenhua Energy	Mining	2.9

Performance

HSBC GIF Chinese Equity Class AD					Annualised		
%	1 mth	3 mths	6 mths	1 yr	3 yrs	5 yrs	10 yrs
NAV	2.5	6.1	-21.1	-20.4	8.1	-2.0	10.3
NAV*	-2.8	0.5	-25.2	-24.6	6.1	-3.0	10.0
BM	2.5	8.4	-19.1	-18.2	13.1	3.4	3.8

[^]Source: HSBC Investment Funds (Hong Kong) Limited as at 30 December 2011. For illustrative purposes only and does not constitute investment recommendation to buy or sell in the above-mentioned sectors/securities.

[#]Source: HSBC Global Asset Management & Morningstar as of 30 December 2011, dividend reinvested in USD terms. *Net of sales charge. BM= MSCI China 10/40 Index. Past performance is not indicative of future returns.

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