

Summary

- ▶ The MSCI Brazil was up 10.8% in August, outperforming the MSCI Latin America (LatAm) (7.8%), the S&P 500 (3.8%) and the MSCI Emerging Markets index (2.1%)
- ▶ During the month, the leading sectors for the benchmark were energy, financials and consumer discretionary while materials, information technology and telecommunications were the notable underperformers
- ▶ Though August was a great month for Brazilian equities, investors will remain skeptical with regard to the country's longer-term economic prospects until a winner in the Brazilian Presidential election is declared

Market overview

The MSCI Brazil was up 10.8% in August, outperforming the MSCI LatAm (7.8%), the Standard & Poor's (S&P) 500 (3.8%) and the MSCI Emerging Markets index (2.1%). During the month, the BRL gained 1.2% against the US dollar, closing the end of the month at Brazil Real (BRL)/USD 2.24.

Emerging market equities posted their sixth consecutive positive performance for the year. However, financial markets in general remained volatile due to an escalation in violence in Iraq as well as reports of armed Russian incursions in Ukraine.

On the activity front:

- The trade balance posted a surplus of US\$1.168 billion (bn) in August, above consensus estimates of a surplus of US\$400 million (mn). Exports added US\$20.465bn while imports added US\$19.297bn.
- Industrial production increased 0.7% month-on-month (mom) in July, above market expectations of a 0.5% increase. On a 12-month basis, the index decreased 3.6%, above consensus estimates of -3.7% year-on-year (yoy).
- The Extended National Consumer Price Index (IPCA) rose 0.25% in August, in line with market consensus. The 12-month accumulated inflation stands at 6.51% yoy.
- Foreign direct investment came in at US\$ 5.9bn in July, above expectations of US\$5.4bn.
- The National Confederation of Industry (CNI) Capacity Utilization Index in July increased to 81.0% from 80.1% in June.

Portfolio strategy

During the month, the leading sectors for the benchmark were energy, financials and consumer discretionary while materials, information technology and telecommunications were the notable underperformers.

At the sector level, our stock selection proved favorable within materials and consumer staples. Overweight in São Martinho, Duratex and CCR S.A. helped.

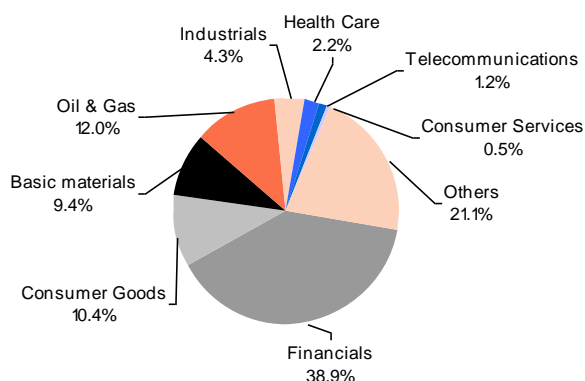
Negative sector contributors to performance included our overall underweight in energy and overweight in health care, although the individual stocks that underperformed the most for the fund were from other sectors. Mills Estruturas, Banco Bradesco and São Carlos are the main detractors.

Outlook

Though August was a great month for Brazilian equities, investors will remain skeptical with regard to the country's longer-term economic prospects until a winner in the Brazilian Presidential election is declared. The latest Datafolha poll collected on August 28 and 29 confirmed the recent Ibope poll and shows Presidential candidate Marina Silva ahead of President Rousseff by 10 points in a second round runoff. This is after what is believed to be a statistical tie between the two in the first round. Market participants believe that a win by Marina Silva will bode better for the economy in future, but many other variables also will be at play in the coming years, including other macro factors within Brazil as well as the state of the global economy.

Source: HSBC Global Asset Management (Hong Kong) Limited as of September 2014. Data shown is for illustrative purposes only and does not constitute investment recommendation to buy or sell in the above-mentioned sectors or securities. Past performance is not indicative of future returns.

Sector allocation¹



Top 10 holdings¹

Name	Sector	Weight (%)
CCR SA	Others	9.5
Itausa Investimentos	General financial	7.9
Itau Unibanco Banco	General financial	6.8
Ambev	Beverages	4.6
Bradespar SA	General financial	4.5
BRF - Brazil Foods SA	Food producers	4.2
Petrobras	Oil & gas producers	4.0
Totvs	Others	3.6
Vale SA	Mining	3.5
Sao Martinho SA	Oil & gas producers	3.4

Performance²

Class AD in USD terms					Annualised		
%	1 mth	3 mths	6 mths	1 yr	3 yrs	5 yrs	Inception (22 Dec 2004)
NAV	9.4	13.1	26.9	23.5	-4.2	2.0	9.9
NAV*	3.7	7.2	20.3	17.1	-5.9	0.9	9.3
BM	10.1	18.0	34.9	33.3	-0.5	4.9	14.6

Source: 1. HSBC Investment Funds (Hong Kong) Limited as at 31 August 2014. Data shown is for illustrative purposes only and does not constitute investment recommendation to buy or sell in the above-mentioned sectors or securities.

2. HSBC Global Asset Management & Morningstar, Inc. as at 31 August 2014, dividend reinvested in USD terms.

* Net of Sales Charge. BM (Benchmark) = MSCI Brazil 10/40 Index. Past performance is not indicative of future returns.

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