HSBC Fund Update

– HSBC GIF Chinese Equity

April 2015

Summary

- The Fund made good gains in absolute terms and outperformed the index in March due to a combination of sector allocation and stock selection
- Sector allocation was positive, mainly due to the underweight position in energy. The positive effect outweighed the negative from the underweight in materials
- We are currently finding opportunities within the environmental protection-themed names, the new energy, and automobile sectors. We like industrial companies that stand as the potential beneficiaries of the ‘One Belt One Road’ plan, as well as financial names with earnings outlook bolstered by the spectrum of positive policy measures

Market overview

The Chinese equity market finished 1Q15 on a strong note by continuing its uptrend since the beginning of the year during the month, with the MSCI China 10/40 posting a gain of 2.4% in USD terms, driven mainly by the announcement of a number of favorable policy measures.

The China Securities Regulatory Commission (CSRC) announced on 27 March 2015 that newly established domestic mutual funds in mainland China will be allowed to invest in Hong Kong stock market through Shanghai-Hong Kong Stock Connect without Qualified Domestic Institutional Investor (QDII) quota. On the other hand, to bolster the property sector, the Chinese government announced a cut to both China’s mortgage down payment requirement and property transaction tax policy. Specifically, the down payment requirement for all second mortgages has been lowered from 60 to 40%, while the holding period requirement for property sales tax will be reduced from 5 years to 2 years. In addition, the State Council approved the Deposit Insurance Scheme, effective 1 May 2015, signaling a speeding up of financial reform.

Information technology made strong gains and was the best performing sector during the month, driven by better earnings and improving outlook. Industrials also had a great run, boosted by the deployment of the ‘One Belt One Road’ plan. Telecommunication services lost ground and was the worst performing sector due to weaker quarterly earnings.

Portfolio strategy

The Fund made good gains in absolute terms and outperformed the index in March due to a combination of sector allocation and stock selection.

Sector allocation was positive, mainly due to the underweight position in energy, as the sector underperformed during the month. The overweight in consumer discretionaries, automobiles in particular, was also beneficial to relative performance. The positive effect outweighed the negative from the underweight in materials.

Overall stock selection was positive, boosted by the selection within financials. Within the sector, the Fund’s investments in Poly Real Estate and China Resources Land were notable contributors as these property names were benefited on the back of property easing measures, while the stake in Ping An Insurance also added value to performance as the company announced a set of strong results during the month. Meanwhile, selection within industrials also contributed, with China Communications Construction being a top contributor to performance mainly because the company benefited from the ‘One Belt One Road’ plan.

Outlook

In the recent months, government policies have turned increasingly supportive of growth. On the monetary front, in addition to the rate cuts and targeted liquidity measures introduced, the Chinese government has recently expressed the view that there could be room for further monetary policy loosening to alleviate the cyclical economic pressures against a moderating growth backdrop. For the property market, the announcement on the cut to the down payment requirement for second home mortgages and property transaction tax, in combination with the recent policy rate cuts, should help stimulate home sales, support the second-hand property market and facilitate upgrading demand.

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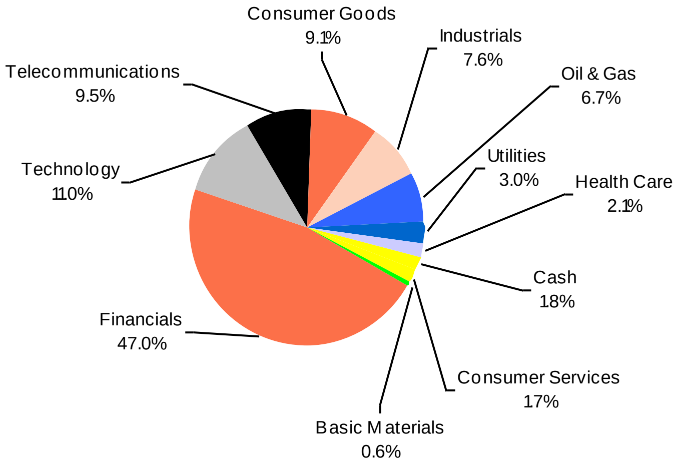
There are also other potential positive catalysts on the horizon around economic and structural reforms. Premier Li Keqiang covered a wide range of key reform areas for 2015 at the recent National People's Congress, including financial, fiscal/tax, State-Owned Enterprise (SOE) and hukou reforms and laid out key growth strategies. In fact, the announcement by China Securities Regulatory Commission (CSRC) on 27 March is an important step towards further financial markets liberalisation. At the same time, it represents an instrumental positive catalyst for the offshore Chinese equity market, given the potentially strong investor appetite on the back of attractive valuations. All in all, the government's strong intent to maintain stable growth and its focus on reforms should help ease concerns around China's growth outlook, earnings prospects and credit risk, and support the financial markets in the near term.

Valuations now sit at an attractive level of 1.6x 2015 price-to-book, with an expected return on equity of 12.5% for the MSCI China index. We continue to like sectors and stocks with sustainable profitability and strong earnings growth prospects, and those that stand to gain from reforms. We are currently finding opportunities within the environmental protection-themed names, the new energy, and automobile sectors. We like industrial companies that stand as the potential beneficiaries of the 'One Belt One Road' plan, as well as financial names with earnings outlook bolstered by the spectrum of positive policy measures. We also see investment opportunities in selective aviation names which may benefit from the lower oil prices.

Source: HSBC Global Asset Management (Hong Kong) Limited as of April 2015. 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 allocation[1]



Top 10 holdings[1]

Name	Sector	Weight (%)
Tencent Holdings	Software & computer services	9.9
China Construction Bank	Banks	9.0
China Mobile	Telecommunications	8.2
Industrial and Commercial Bank of China	Banks	7.2
Ping An Insurance	Insurance	5.0
Bank of China	Banks	4.2
China Life Insurance	Insurance	4.1
China Resources Land	Real estate investment & services	4.1
Chongqing Changan Automobile	Automobiles & parts	2.6
Agricultural Bank of China	Banks	2.6

Performance[2]

HSBC GIF Chinese Equity Class AD					Annualised		
%	1 mth	3 mths	6 mths	1 yr	3 yrs	5 yrs	Inception (25 Jun 1992)
NAV	2.6	6.1	21.8	29.0	11.4	4.4	10.7
NAV*	-2.8	0.6	15.4	22.3	9.4	3.3	10.4
BM	2.4	8.1	16.0	24.7	11.1	5.6	5.1

Source: 1. HSBC Investment Funds (Hong Kong) Limited as at 31 March 2015. 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 March 2015, dividend reinvested in USD terms.

*Net of sales charges. BM (Benchmark) = MSCI China 10/40 Capped Net Index. Past performance is not indicative of future returns.

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HSBC Global Asset Management (Singapore) Limited
21 Collyer Quay #06-01 HSBC Building Singapore 049320
Telephone: (65) 6658 2900 Facsimile: (65) 6225 4324
Website: www.assetmanagement.hsbc.com/sg
Company Registration No. 198602036R