HSBC Fund Update
– HSBC GIF BRIC Equity

August 2016

Market overview

Emerging Markets (EM), as represented by the MSCI Emerging Markets net index, gained +5.0% in July, outperforming Developed Markets (DM) with the MSCI World net index up +4.2%. EMs showed resilience to market events – Brexit, political unrest in Turkey, RMB depreciation and a correction in Brent Crude, in July. The rally in EM equity markets can be attributed to the anticipation of extended global monetary policy easing with the inflow in liquidity benefitting EMs.

Within BRIC, Brazil (+10.0%) was the best performing market. The strong performance was a combination of a hunt for higher yielding assets, higher commodity prices and improved business and consumer confidence within Brazil driven by higher confidence in Temer's government. Indian equities added +5.7% as the possibility of the much awaited Goods and Services Tax (GST) Bill being approved in the Parliament rose. China (+3.5%) rose on expectations of more State-Owned Enterprises (SOE) reforms and some evidence of economic stabilization. Russia (+1.9%) was weighed down by the fall in the oil price and weakening of the ruble.

Portfolio strategy

In July, the strategy returned +6.29% (AC share class) and +6.36% (IC share class), outperforming the benchmark (a customised equally weighted BRIC Index), which returned +5.25%.Year-to-date, the fund is up +23.66% (AC share class) and +24.28% (IC share class), compared to +21.34% for the benchmark.

In July, stock selection, notably in India and China, was the key driver of relative outperformance. Exposure to one of the largest oil and gas exploration companies in India, Cairn India and diversified natural resources company, Vedanta Limited contributed to relative returns as those stocks rallied on the announcement of revised merger terms between the two companies.

In China, exposure to car maker Geely Automobile supported performance, gaining on strong June (+41%yoy) and July (+64%yoy) sell through and new SUV models such as Boyue and Emgrand GS getting traction. Another contributor was exposure to off-benchmark, Brazilian bank – Banrisul, which benefited from positive political sentiment in Brazil.

Detracting from performance was the fund's overweight position in Brazil-based pulp and paper company, Suzano Papel E Celulo, as the stock sold off on continued strengthening of the Brazilian Real (BRL). The company's revenues are generated from pulp and paper, and are denominated in US Dollar, while costs are denominated in BRL, which results in lower profitability in a stronger BRL environment. Underweight exposure to Indian company, HDFC also detracted from performance as the stock outperformed on the back of good quarterly results.

Outlook

In the short-term, we are likely to see market volatility, driven by concerns over global growth, a slowdown in China, Brexit, US Presidential elections and US interest rate normalization.

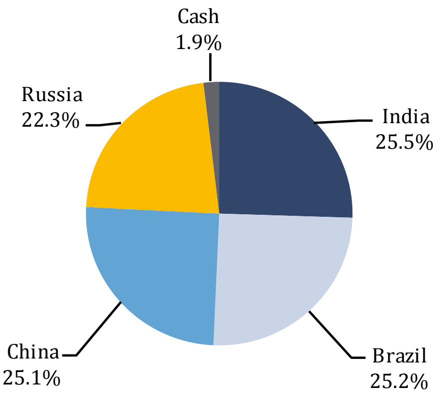
With regard to Brexit, we do not believe this will have much impact on EM fundamentals—the correction seen in June has more to do with market sentiment including the possibility of exit contagion to other countries. That risk is hard to quantify. Should contagion occur, there will be an impact on global growth which will not be specific to EM.

Our portfolio is well diversified and we continue to focus on companies with compelling business models and strong fundamentals. Markets are changing rapidly and may present some relative opportunities.

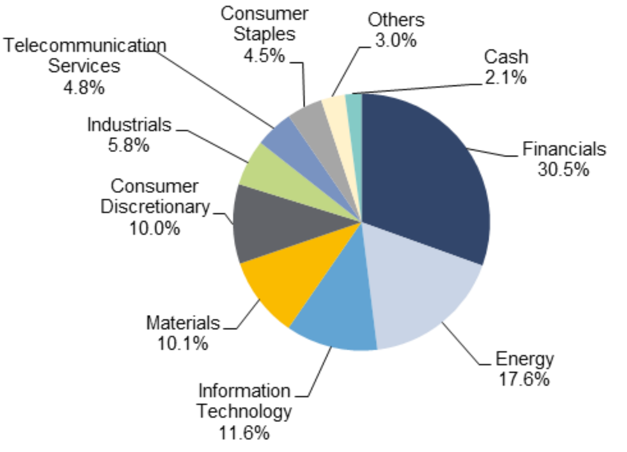
As long term investors, we remain positive about emerging markets as equity returns compare favorably with other asset classes. Valuations in emerging markets remain compelling. On a price-to-book (P/B) basis, emerging markets are trading at 1.4x with estimated return-to-equity (ROE) of 11.2%, compared to developed markets at 2.0x P/B with 12.4%. Thus, emerging markets look to be much cheaper than developed markets on a P/B basis but with a comparable level of ROE.

HSBC Global Asset Management

Geographic allocation[1]



Sector allocation[1]



Top 10 holdings[1]

Name	Sector	Country	Weight (%)
Sberbank Of Russia Pjsc	Financials	Russia	5.3
Tencent Holdings Ltd	Information Technology	China	5.0
Itau Unibanco Holding S-Pref	Financials	Brazil	4.8
Lukoil Pjsc	Energy	Russia	4.3
Gazprom Pjsc	Energy	Russia	3.9
MMC Norilsk Nickel Pjsc	Materials	Russia	3.0
Banco Bradesco S.A.	Financials	Brazil	2.9
Telefonica Brasil S.A.	Telecommunication Services	Brazil	2.5
Petrobras - Petroleo Bras	Energy	Brazil	2.3
CCR Sa	Industrials	Brazil	2.2

Performance[2]

Class AC in USD terms					Annualised		
%	1 mth	3 mths	6 mths	1 yr	3 yrs	5 yrs	Inception (1 Dec 2009)
NAV	6.3	7.1	35.7	6.6	2.6	-6.0	6.1
NAV*	0.7	1.5	28.6	1.0	0.8	-7.1	5.6

Source: 1. HSBC Investment Funds (Hong Kong) Limited as at 31 July 2016. Data shown is for illustrative purposes only and does not constitute any investment recommendation.

2. HSBC Global Asset Management & Morningstar, Inc. as at 31 July 2016, dividend reinvested in USD terms.

*Net of sales charge. The Fund is actively managed without reference to any benchmark. Past performance is not indicative of future returns. Performance quoted prior to 1 December 2009 refers to the Class M1C of HGIF BRIC Equity. The Class M1C and AC have the same investment objective but different fee structures. However, M1C class had been closed for subscriptions.

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