August 2016

HSBC Fund Update
– HSBC GIF Chinese Equity

Market review

Offshore Chinese equities ended the month of July in positive territory, with the MSCI China 10/40 Net rising 3.4% in USD terms, as recent macro data showed that China's economy remained resilient amid volatility on the back of government policy support.

China's 2Q16 real GDP grew 6.7% year-on-year, which was flat compared to previous quarter's number and stayed within the government's growth target of 6.5-7.0%. Furthermore, the nation's economic momentum showed general signs of stabilization as June's activity indicators such as industrial production and retail sales, as well as credit growth exhibited modest improvements. Meanwhile, fixed asset investment growth was subdued especially in the manufacturing sector. On the other hand, a recovery in the property market continued, while nationwide property inventory fell for a fourth straight month in June. That being said, growth across home sales, new starts and investment showed signs of deceleration following the introduction of macro-prudential measures in selected top-tier cities. Market sentiment was dampened by the end of July as it was reported that the China Banking Regulatory Commission (CBRC) was considering issuing new regulations on bank wealth management products with new investment restrictions in equities and non-standard credit assets.

Consumer discretionary gained ground and was the best-performing sector, supported by auto names and recovery in e-commerce names and large retailers. Telecommunication services and materials also had a good run. Consumer staples ended July as the laggard.

Portfolio strategy

The Fund returned positively in absolute terms and outperformed the market in July mainly driven by a combination of sector allocation and stock selection.

From a sector allocation point of view, the overweight in energy detracted from performance as the sector underperformed on the back of falling oil price in July. However, this drag was outweighed by the positive from the underweight in consumer staples, the worst-performing sector. The overweight in materials was also beneficial to the Fund as the sector was boosted by rising commodity prices.

Stock selection in consumer discretionary continued to contribute positively to the Fund's relative performance, largely driven by the investment in the auto names. Our stake in Geely Automobile ended the month as the top contributor, as the stock rallied on stronger-than-expected growth in sales volume, driven by the stellar performance in the SUV space. SAIC Motor was another standout due to its attractive valuation and dividend yield profile. The holding in Guangzhou Automobile was also beneficial as the stock ended July on a positive note driven by strong SUV sales volume, despite registering a sharp correction on 25 July as its Honda joint venture announced product recall due to defective vehicle component. Selection in information technology was also positive, largely a result of the investment in Sunny Optical Technology, as the company was positioned well to potentially benefit from the secular up-cycles of optical applications in auto and smartphone markets, and the underweight position in Baidu as it lost ground and underperformed in July.

Outlook

We think that volatility is likely to remain in the near term. While the uncertainty around the economic growth of the UK and Europe may introduce further risks to deflation and global growth, on a broader level we are mindful of potential central bank policies globally as any abrupt currency movement may trigger central bank intervention on the monetary policy front which will bring upon implications to the stock markets. Focusing on China, the potential delay of Fed rate hike will likely help stabilise the movement of the RMB. Meanwhile, proactive fiscal policy expansion accompanied by the implementation of reforms such as on the supply side and further opening up of its capital/financial markets should be supportive of the market.

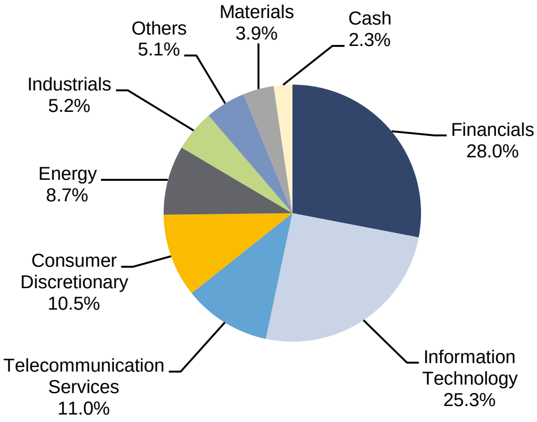
Valuation for MSCI China index sits at an attractive level of 1.3x 12-month forward price-to-book, which is around one standard deviation lower than its 10-year average of 1.9x.

While markets may be impacted by the swing in sentiment in the short term, valuation is an important factor that we will closely monitor and may add to companies with good fundamentals when attractive buying opportunities present. In terms of sectors, we continue to be positive on the auto sector, mainly on companies with a strong product pipeline focusing on the Sport Utility Vehicle (SUV) segment, as SUV sales in China continue to gain momentum. We believe that companies in a favorable product cycle will likely deliver strong earnings. We also maintain our positive view on the material sector (especially the ones that are more leveraged to the construction start) as we think selective names will benefit from the strong infrastructure investment and pick-up in property construction activity. Earnings/margin bottoming out and attractive valuations also drive a relatively favorable outlook.

Source: HSBC Global Asset Management (Hong Kong) Limited as of 31 July 2016. Data shown is for illustrative purposes only and does not constitute any investment recommendation. Past performance is not indicative of future returns.

HSBC
Global Asset Management

Sector allocation[1]



Top 10 holdings[1]

Name	Weight (%)
Tencent Holdings Ltd	9.9
China Mobile Ltd	9.7
Alibaba Group Holding Ltd	8.8
China Construction Bank	7.5
Industrial & Commercial Bk Of China	4.1
China Petroleum And Chem	3.6
Ping An Insurance Co Ltd	3.6
Geely Automobile Holding Ltd	3.0
Bank Of China	3.0
Cnooc Ltd	2.8

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	5.6	6.4	15.5	-8.6	4.3	0.6	9.4
NAV*	0.1	0.8	9.5	-13.4	2.5	-0.5	9.2
BM	3.4	3.6	12.7	-11.7	3.3	0.6	4.1

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

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