HSBC Fund Update

HSBC Global Investment Funds - Chinese Equity (“the Fund”)

November 2011

Summary

- Chinese equity markets rebounded in October and the Fund benefited from this rally
- At a sector level, conviction that the Financials sector was oversold paid off, and the Fund’s overweight contributed positively to performance
- The recent relief measures for troubled companies in Wenzhou and tax reform for services and transportation sectors alleviate some financial pressure on Chinese SMEs
- As such, we are turning more positive on the Chinese equity market and would continue to buy on weakness, particularly in the cyclical and property sectors

Market review

China equities bounced back in October, on better-than-expected US macro data and on hopes of a breakthrough in the European sovereign debt problem. The Fund benefited from the rally, and during the month rose 13.3% (bid-bid, 7.3% offer-bid).

Investor concerns over local government fiscal positions in China were somewhat alleviated as Beijing, Shanghai, Guangdong and Zhejiang were allowed to issue municipal bonds for the first time. The State Council’s introduction of preferential policies to alleviate small and medium enterprise woes was also well received.

Chinese property developers outperformed in October after suffering a heavy sell-off in September. There was also speculation that the government might relax restrictions on home purchases and replace them with a wider implementation of property taxes, as well institute a housing database that would gather information from banks and tax offices to better control the housing market.

On the economic front, Consumer Price Index inflation eased slightly to 6.1% yoy in September, as compared to 6.2% yoy in August. Food prices stabilized - increasing 13.4% yoy in September, as compared to a rise of 13.4% yoy in August. China’s money supply growth contracted to 13.0% yoy, as compared to 13.5% yoy in August. New bank lending totaled Rmb470bn, as compared to Rmb548.5bn in August.

Retail sales growth remains strong at 17.7% yoy in September, as compared to 17.0% yoy in August. Exports growth decelerated to 17.1% yoy in September, as compared to 24.5% yoy in August while imports growth also slowed to 20.9% yoy, as compared to 30.2% yoy in August, leading to a trade surplus of US14.5bn in September and a trade surplus of US107.1bn year to date.

HSBC
Global Asset Management

Portfolio strategy

At a sector level, our conviction that the Financials sector was oversold paid off in October, and the Fund's overweight contributed positively to performance. Cyclical sectors outperformed amid the market's rally and the underweight in Materials hurt performance. Residual cash also dragged.

At a stock level, some of the top contributing stocks came from the banking sector. Our view last month was that Chinese banks were oversold due to gloomy market sentiment, especially the larger state-owned banks such as ICBC and Agricultural Bank of China. We added to these stocks accordingly and enjoyed the benefits as they outperformed the market. In addition, one of our high conviction ideas, luxury auto-maker Brilliance China Automotive, also outperformed in October on the back of the company's strong earnings outlook

Outlook

Recent data flows confirm our view of a soft-landing for the Chinese economy. Despite the ongoing impact of quantitative tightening and initial signs of external slackness, both the year-on-year and sequential growth rates of GDP are still holding up well. Moreover, the upside surprises in September industrial production and retail sales data further underlines the resilience of domestic consumption, boosted by rapid income growth. Ongoing infrastructure investment and accelerated public housing construction is also boosting economic growth.

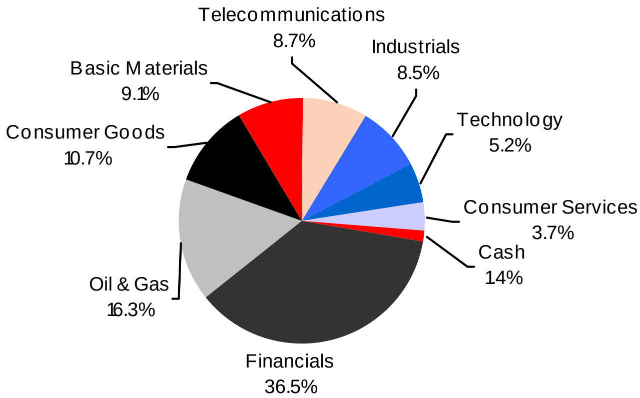
We believe the Chinese equity market stands a good chance of recovery from oversold levels, as the market starts to react positively to loosening policy in selective segments and to the possibility of headway in the European sovereign debt saga. The recent statement by Premier Wen Jiaobao on "fine-tuning macro policy at an appropriate time" - and Europe's strong determination to recapitalise their banks - have eased investor concerns on a "hard landing" scenario in China. The capital injection of Rmb200bn into railway construction, the implementation of municipal bonds in selected cities and sequential improvement in the monthly loan quota suggests infrastructure investment may be near a trough and may boost sentiment around railway construction and building material companies.

The recent relief measures for troubled companies in Wenzhou and tax reform for services and transportation sectors alleviate some financial pressure on Chinese SMEs. As such, we are turning more positive on the Chinese equity market and would continue to buy on weakness, particularly in the cyclical and property sectors. Nevertheless, from now till the first quarter of next year, we will continue to expect market volatility from economic headwinds and another round of earnings downgrades.

Performance

HSBC GIF Chinese Equity Class AD					Annualised		
%	1 mth	3 mths	6 mths	1 yr	3 yrs	5 yrs	10 yrs
NAV	13.3	-15.5	-20.0	-17.2	15.1	4.3	10.7
NAV*	7.3	-20.0	-24.2	-21.5	13.0	3.2	10.4
BM	15.6	-12.9	-16.5	-15.4	21.3	9.9	16.1

Sector allocation^



Top 10 holdings^

Name	Sector	Weight (%)
Industrial and Commercial Bank of China	Banks	10.0
China Construction Bank	Banks	7.2
China Mobile	Telecommunications	6.5
China Petroleum and Chemical	Oil & gas producers	5.8
CNOOC	Oil & gas producers	5.0
Tencent Holdings	Software & computer services	4.8
Petrochina	Oil & gas producers	4.8
Ping An Insurance	Insurance	4.5
Bank of China	Banks	4.2
Agricultural Bank of China	Banks	3.1

*#Source: HSBC Global Asset Management & Morningstar as of 31 Oct 2011, dividend reinvested in USD terms. *Net of sales charge. BM= MSCI China 10/40 Index. Past performance is not indicative of future returns.*

^Source: HSBC Investment Funds (Hong Kong) Limited as at 31 Oct 2011. For illustrative purposes only and does not constitute investment recommendation to buy or sell in the above-mentioned sectors/securities.

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