

HSBC Global Investment Funds

GLOBAL EMERGING MARKETS BOND

Monthly report 31 March 2023 | Share class ID

Investment objective

The Fund aims to provide long term capital growth and income by investing in a portfolio of emerging market bonds.

Investment strategy

The Fund is actively managed. In normal market conditions, the Fund will mostly invest its assets in investment grade and non-investment grade bonds issued by governments, government-related entities, supranational entities and companies based in emerging markets. The Fund may invest up to 30% of its assets in securities issued by a single government issuer with a non-investment grade credit rating. The Fund may invest up to 10% of its assets in onshore Chinese bonds which are issued within the People's Republic of China and traded on the China Interbank Bond Market. The Fund may invest up to 10% in convertible bonds. The Fund may also invest up to 10% of its assets in contingent convertible securities. The Fund may invest up to 10% of its assets in total return swaps and up to 10% in other funds. The Fund's primary currency exposure is to US dollars. See the Prospectus for a full description of the investment objectives.

Main risks

- The Fund's unit value can go up as well as down, and any capital invested in the Fund may be at risk.
- The Fund invests in bonds whose value generally falls when interest rates rise. This risk is typically greater the longer the maturity of a bond investment and the higher its credit quality. The issuers of certain bonds, could become unwilling or unable to make payments on their bonds and default. Bonds that are in default may become hard to sell or worthless.
- The Fund may invest in Emerging Markets, these markets are less established, and often more volatile, than developed markets and involve higher risks, particularly market, liquidity and currency risks.

Share Class Details

Key metrics	
NAV per Share	USD 14.98
Performance 1 month	0.83%
Yield to maturity	8.62%
Fund facts	
UCITS V compliant	Yes
Dividend treatment	Distributing
Distribution Frequency	Annually
Dividend ex-date	6 July 2022
Dividend Yield ¹	4.48%
Last Paid Dividend	0.671261
Dealing frequency	Daily
Valuation Time	17:00 Luxembourg
Share Class Base Currency	USD
Domicile	Luxembourg
Inception date	18 May 2009
Fund Size	USD 1,172,999,393
Reference benchmark	100% JP Morgan EMBI Global Diversified
Managers	Scott Davis Jaymeson Paul Kumm
Fees and expenses	
Minimum Initial Investment	USD 1,000,000
Ongoing Charge Figure ²	0.750%
Management fee	0.500%
Codes	
ISIN	LU0149732736
Bloomberg ticker	HSBCGEI LX

¹Dividend Yield: represents the ratio of distributed income over the last 12 months to the fund's current Net Asset Value.

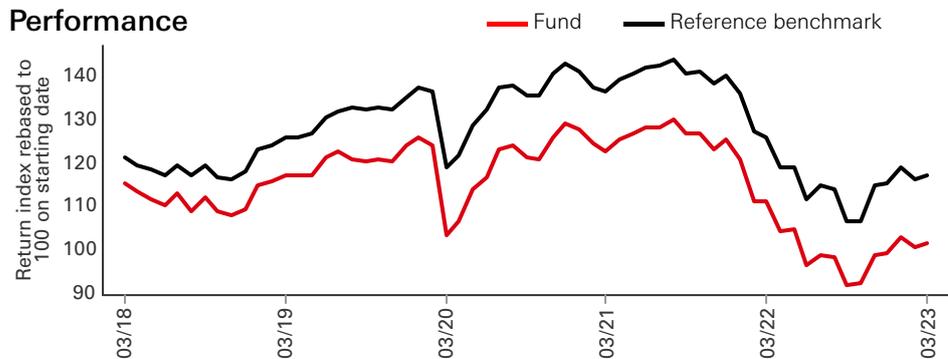
²Ongoing Charges Figure, is based on expenses over a year. The figure includes annual management charge but not the transaction costs. Such figures may vary from time to time.

Past performance does not predict future returns. The figures are calculated in the share class base currency, dividend reinvested, net of fees.

Reference Performance Benchmark: JP Morgan EMBI Global Diversified since 8 Dec 2020. Previously JP Morgan EMBI Global from 1 Jan 2000 to 7 Dec 2020. Prior to that, the benchmark was JP Morgan EMBI.

Source: HSBC Asset Management, data as at 31 March 2023

Performance



Performance (%)	YTD	1 month	3 months	6 months	1 year	3 years ann	5 years ann
ID	1.98	0.83	1.98	10.19	-8.69	-0.59	-2.53
Reference benchmark	1.86	0.96	1.86	10.12	-6.92	-0.49	-0.69

Rolling Performance (%)	31/03/22-31/03/23	31/03/21-31/03/22	31/03/20-31/03/21	31/03/19-31/03/20	31/03/18-31/03/19
ID	-8.69	-9.60	19.03	-11.88	1.65
Reference benchmark	-6.92	-7.44	14.36	-5.28	3.52

3-Year Risk Measures	ID	Reference benchmark	5-Year Risk Measures	ID	Reference benchmark
Volatility	12.18%	10.81%	Volatility	12.84%	10.69%
Sharpe ratio	-0.12	-0.13	Sharpe ratio	-0.31	-0.20
Tracking error	2.28%	--	Tracking error	2.99%	--
Information ratio	-0.04	--	Information ratio	-0.61	--

Fixed Income Characteristics	Fund	Reference benchmark	Relative
No. of holdings ex cash	278	943	--
Average coupon rate	5.46	5.19	0.27
Yield to worst	8.37%	8.30%	0.08%
Option Adjusted Duration	6.97	6.75	0.22
Modified Duration to Worst	7.12	6.87	0.26
Option Adjusted Spread Duration	6.15	6.83	-0.69
Average maturity	11.86	11.55	0.31
Rating average	BBB-/BB+	BBB-/BB+	--

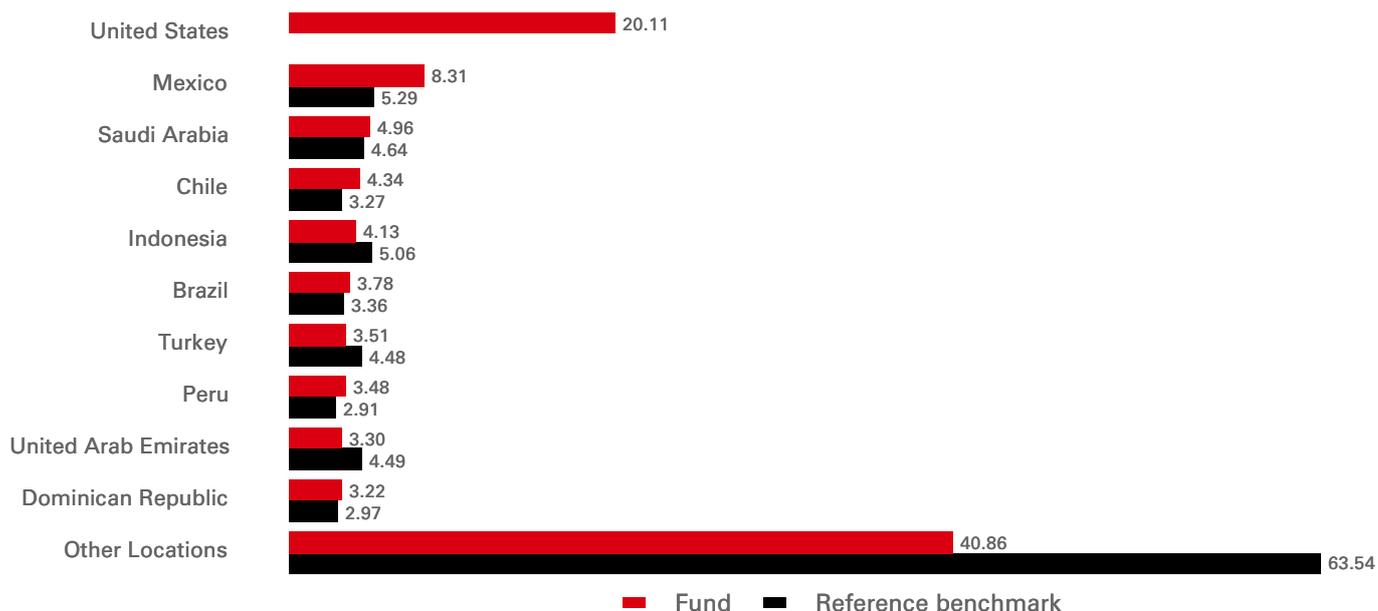
Credit rating (%)	Fund	Reference benchmark	Relative	Maturity Breakdown (%)	Fund	Reference benchmark	Relative
AAA	10.39	--	10.39	0-2 years	13.12	10.08	3.03
AA	5.65	7.05	-1.40	2-5 years	23.09	25.16	-2.07
A	10.46	16.53	-6.08	5-10 years	25.05	27.86	-2.81
BBB	24.42	28.10	-3.69	10+ years	38.74	36.90	1.84
BB	22.13	22.74	-0.60				
B	18.88	19.75	-0.87				
CCC	3.23	3.26	-0.03				
CC	2.09	2.00	0.08				
C	0.23	0.02	0.22				
D	0.34	0.42	-0.08				
NR	-2.25	0.13	-2.38				
Cash	8.12	--	8.12				
Cash Offset	-3.69	--	-3.69				

Past performance does not predict future returns. The figures are calculated in the share class base currency, dividend reinvested, net of fees.

Source: HSBC Asset Management, data as at 31 March 2023

Currency Allocation (%)	Fund	Reference benchmark	Relative
USD	100.08	100.00	0.08
BRL	0.55	--	0.55
ZAR	0.53	--	0.53
SGD	0.01	--	0.01
EUR	0.01	--	0.01
CHF	0.01	--	0.01
AUD	0.00	--	0.00
PLN	0.00	--	0.00
MXN	0.00	--	0.00
HKD	-0.01	--	-0.01
Other Currencies	-1.18	--	-1.18

Geographical Allocation (%)



Sector Allocation (%)	Fund	Reference benchmark	Relative
Government	67.21	83.05	-15.84
Energy	18.07	8.51	9.56
Basic Materials	3.92	1.84	2.07
Utilities	3.24	2.40	0.84
Financial	2.94	2.47	0.47
Industrial	1.11	1.03	0.08
Communications	0.95	--	0.95
Consumer Non cyclical	0.46	0.56	-0.10
Consumer Cyclical	--	0.14	-0.14
credit default swap index	-2.34	--	-2.34
Other Sectors	-3.69	--	-3.69
Cash	8.12	--	8.12

Top 10 Holdings	Weight (%)
PETROLEOS MEXICA 6.500 13/03/27	1.91
PANAMA 6.853 28/03/54	1.65
TURKEY REP OF 9.375 14/03/29	1.32
PANAMA 6.400 14/02/35	1.31
ECOPETROL SA 8.875 13/01/33	1.31
TURKEY REP OF 9.875 15/01/28	1.09
COLOMBIA REP OF 8.000 20/04/33	1.08
DOMINICAN REPubL 5.500 22/02/29	0.97
ABU DHABI GOVT 4.125 11/10/47	0.97
PETROLEOS MEXICA 7.690 23/01/50	0.94

Monthly performance commentary

Market review

Volatility hit the markets in March as a few US regional banks failed, in addition to take over of Credit Suisse by rival UBS. Emerging markets assets posted positive performance as they benefitted from a drop in rates and a weaker US dollar, as the market began to price in a sooner than expected end to monetary tightening in the US. March was marked by a potential banking crisis as SVB had a run-on deposit spreading fear amongst US regional banks. This prompted the failure of a few banks in the US, while Credit Suisse found itself in trouble, leading to a takeover by rival UBS. Markets began to worry as treasury yields fell, with the potential for the Fed to halt rates to contain the situation. However, with the backstops put in place by the Fed and US government, the Fed ultimately raised interest rates by 25bps. The market now believes this could be nearing the end of the tightening cycle and has priced in rates cuts. For EM central banks, those still fighting high inflation should continue to hike interest rates. EM spreads widened during the month while hard currency and corporate supply was negative. Finally, we saw outflows from the asset class during the month, mainly coming from hard currency retail funds. Over the month, the EMD asset classes experienced the following returns:

- Hard currency sovereign bonds returned: +0.96% (JP Morgan EMBI Global Diversified) - Investment Grade: +2.27%; High Yield: -0.40%
- Hard currency sovereign bonds ESG returned: +1.28% (JP Morgan ESG EMBI Global Diversified)
- Hard currency corporate bonds returned: +0.83% (JP Morgan CEMBI Broad Diversified)
- Hard currency corporate bonds ESG returned: +0.79% (JP Morgan ESG CEMBI Broad Diversified)
- Local bonds returned: +4.12 % (JP Morgan GBI-EM Global Diversified)
- Local bonds ESG returned: +4.33% (JP Morgan ESG GBI-EM Global Diversified)
- Local currencies returned: +2.05% (JP Morgan ELMI+)

Performance and Positioning

EM hard currency assets posted positive returns in March as banking stress in the market led to a fall in US Treasury yields. The fund outperformed the benchmark during the month. During the month, select overweights to countries in the GCC region added to relative returns. In addition, the underweight to Bolivia and Egypt added to relative performance as they were amongst the worst performers on the month. Lastly, the overweight to duration added to relative performance as UST yield fell given the banking sector stress. In terms of detractors, the overweight to the quasi-sovereign in Mexico, Pemex, hurt relative returns over the period as it underperformed during the risk-on month. Additionally, off-benchmark exposure to corporates hurt relative performance. We ended the month with a neutral beta and covered some high-quality IG credits in the portfolio. In addition, we have added a relative value trade by increasing exposure to single B credits relative to BB credits as the valuation gap became excessive. We moved to an overweight duration position of 0.14 years relative to the benchmark, while maintaining an underweight to spread duration of -0.75 years. Lastly, we added some off-benchmark exposure to local rates.

Outlook

The rapid pace of central bank rate hikes finally caught up with the banking sector in March, with mark-to-market losses on capital triggering a regional banking crisis in the US and a string of bank failures most notably Silicon Valley Bank, and in Europe a liquidity crunch bringing down Credit Suisse and an SNB-facilitated acquisition by rival UBS. The market reaction to these events was a sharp rally in risk-free assets as investors flocked to safety, as well as wider credit spreads especially among bank and subordinated debt across EM. The Federal Reserve responded with two emergency liquidity programs as well as a more dovish stance at its meeting and a reduction in the US GDP forecast. Our view is that the banking sector risks while clearly now systemic will not cause contagion into EM bonds. For a variety of reasons, we see EM credit as immune from the events in the US and Europe. Firstly, EM banks tend to be more profitable and have greater buffers than banks in the US and Europe; and they typically have much larger market share in the geographies where they operate as EM banking systems are more concentrated, so less opportunity exists for deposit-switching behaviour. EM banks are used to volatile environments, specifically sharp interest rate cycles and FX fluctuations, and therefore carry higher capital buffers and hedges as a result. EM banks use AT1 issuance for different purposes – in some cases to lower the cost of funding across the capital structure, and often with greater government support and different regulatory intervention triggers, so AT1 bail-in recourse is much less likely. In short, we see the sell-off in EM credit as a general opportunity to add exposures, although we are limiting our overall exposure to banks and specific issuer concentrations in subordinated debt. The most likely path forward is that major central banks will pause their rate hikes as they assess the banking sector fallout, allowing a reprieve to EM assets and a reallocation globally into fixed income. In fact, we are optimistic that the Federal Reserve's greater focus on financial stability over inflation going forward may accelerate our view for EMFX appreciation this year, as the peak in interest rates is now likely behind us and the cycle of a strong US dollar with it. China's reopening should provide a major tailwind to EM economies this year, and we believe we are only in the very first inning of a cyclical recovery in global trade and financial flows to EM economies spurred by the Chinese engine. For 2023 as a whole and especially later in the year as the US economy slowdown is absorbed, we expect EM credit spreads to tighten, contributing to a forecast of double-digit returns at the index level. In March we added to investment grade credit exposures, topped-up our overall duration position to an overweight, and added EM currency positions to capture the market rotation from a changing Federal Reserve stance. We continue to like Latin American high quality US dollar bonds especially in quasi-sovereigns and corporates, China reopening trades in Asia, and select EM local duration positions in Brazil and South Africa. The greatest risk to our exposures would be another inflation shock, caused potentially by geopolitics, sending interest rates higher, causing another wave of US dollar buying, and calling systemic creditworthiness of EM issuers into question. We maintain tail risk hedge positions against this scenario.

Risk Disclosure

- Derivatives may be used by the Fund, and these can behave unexpectedly. The pricing and volatility of many derivatives may diverge from strictly reflecting the pricing or volatility of their underlying reference(s), instrument or asset.
- Investment Leverage occurs when the economic exposure is greater than the amount invested, such as when derivatives are used. A Fund that employs leverage may experience greater gains and/or losses due to the amplification effect from a movement in the price of the reference source.
- Further information on the potential risks can be found in the Key Investor Information Document (KID) and/or the Prospectus or Offering Memorandum.

Follow us on:



HSBC Asset Management (Bermuda)
Limited Telephone: +441 299 6644
Email: asset.management@hsbc.bm
Website: assetmanagement.hsbc.bm

Glossary



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Source: HSBC Asset Management, data as at 31 March 2023