HSBC Asset Management

HSBC Investment Funds

Corporate Bond Fund

Monthly report 29 February 2024 | Share class Acc C

Investment objective

The Fund aims to provide higher returns (before charges and tax are deducted from the Fund) than the Markit iBoxx GBP Corporates Index plus 1% per year, over three-year periods.

Investment strategy

To achieve its objective the Fund will invest at least 80% of its value in bonds that have a credit rating of investment grade and are issued in sterling or are hedged back to sterling. The bonds may be issued by companies and supranational or government-backed organisations which may be located anywhere in the world. The types of bond the Fund may invest in include covered bonds and asset backed securities. The Fund is managed with reference to the Markit iBoxx GBP Corporates Index. The fund manager is not limited to investing in bonds that are part of the Markit iBoxx GBP Corporates Index. The fund manager aims to generate returns in excess of the Markit iBoxx GBP Corporates Index plus 1% per year, over three-year periods, before charges and tax are deducted from the Fund. This is based on our current view of returns the Fund may potentially achieve, which may change. The Markit iBoxx GBP Corporates Index is also considered as part of our investment risk monitoring process, to check that the overall level of risk taken by the fund manager is not inconsistent with the sterling corporate bond market. The performance of the Fund is shown against the performance of the Markit iBoxx GBP Corporates Index plus 1% per year.

Main risks

- The value of investments and any income from them can go down as well as up and you may not get back the amount originally invested.
- Where overseas investments are held the rate of currency exchange may cause the value of such investments to go down as well as up.
- 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.

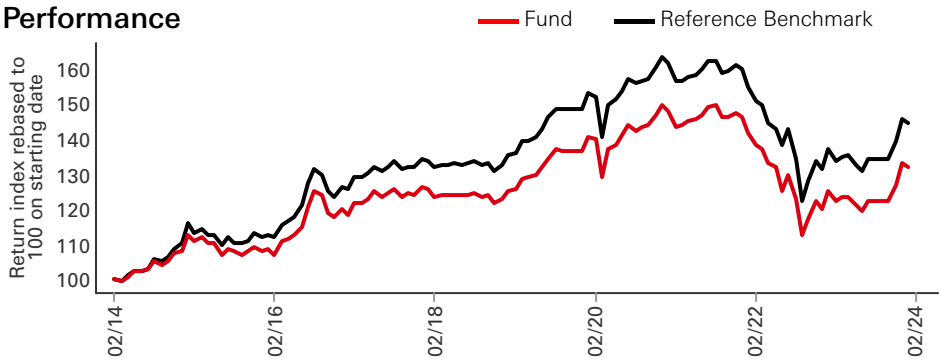
Share class details

Key metrics	
NAV per share	**GBP 3.02**
Performance 1 month	**-0.70%**
Yield to maturity	**6.24%**
Fund facts	
UCITS V compliant	**Yes**
UK reporting fund status (UKRS)	**Yes**
ISA eligible	**Yes**
Dividend treatment	**Accumulating**
Dividend ex-date	**16 January 2020**
Dealing frequency	**Daily**
Valuation time	**12:00 United Kingdom**
Share class base currency	**GBP**
Domicile	**United Kingdom**
Inception date	**3 December 2012**
Fund size	**GBP 174,019,315**
Reference benchmark	**100% Markit iBoxx GBP Corporates Index plus 1% per year**
Managers	**Mohamed Imtiaz Siddeeq Oliver Boulind**
Fees and expenses	
Minimum initial investment[1]	**GBP 1,000,000**
Ongoing charge figure[2]	**0.410%**
Codes	
ISIN	**GB00B85KC152**
Bloomberg ticker	**HSCPBAC LN**
SEDOL	**B85KC15**

[1]Please note that initial minimum subscription may vary across different distributors
[2]Ongoing 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.
This is a marketing communication. Please refer to the prospectus and to the KID before making any final investment decisions.
For definition of terms, please refer to the Glossary QR code and Prospectus.
Source: HSBC Asset Management, data as at 29 February 2024

Performance



Performance (%)	YTD	1 month	3 months	6 months	1 year	3 years ann	5 years ann	10 years ann
Acc C	**-1.65**	**-0.70**	**2.91**	**6.79**	**6.78**	**-3.02**	**0.81**	**2.73**
Reference Benchmark	-1.34	-0.56	3.31	7.25	7.49	-2.80	1.15	3.70

Rolling performance (%)	28/02/23-29/02/24	28/02/22-28/02/23	28/02/21-28/02/22	29/02/20-28/02/21	28/02/19-29/02/20	28/02/18-28/02/19	28/02/17-28/02/18	29/02/16-28/02/17	28/02/15-29/02/16	28/02/14-28/02/15
Acc C	**6.78**	**-11.29**	**-3.69**	**2.64**	**11.18**	**1.56**	**1.82**	**13.29**	**-3.38**	**11.07**
Reference Benchmark	7.49	-11.20	-3.78	2.99	11.91	2.91	2.41	14.95	-0.84	13.13

3-Year Risk Measures	Acc C	Reference Benchmark
Volatility	--	9.86%
Sharpe ratio	--	-0.55
Tracking error	--	--
Information ratio	--	--

5-Year Risk Measures	Acc C	Reference Benchmark
Volatility	--	9.40%
Sharpe ratio	--	-0.06
Tracking error	--	--
Information ratio	--	--

Fixed Income Characteristics	Fund	Reference Benchmark	Relative
No. of holdings ex cash	161	868	--
Average coupon rate	4.81	4.27	0.54
Yield to worst	5.97%	5.50%	0.47%
Current yield	4.86%	4.43%	0.43%
Option adjusted duration	6.16	5.82	0.33
Option adjusted spread duration	5.71	5.91	-0.20
Average maturity	9.17	8.36	0.81
Rating average	A-/BBB+	A-/BBB+	--

Credit rating (%)	Fund	Reference Benchmark	Relative
AAA	--	1.14	-1.14
AA	4.89	8.94	-4.04
A	21.61	36.86	-15.25
BBB	66.38	52.94	13.44
BB	4.35	0.13	4.22
B	0.79	--	0.79
NR	0.36	--	0.36
Cash	1.62	--	1.62

Geographical allocation (Option adjusted duration)	Fund	Reference Benchmark	Relative
UK	4.25	3.01	1.23
Europe-ex UK	1.38	1.48	-0.09
North America	0.47	1.16	-0.69
Asia	0.06	0.13	-0.07
Latam	--	0.04	-0.04
Other Locations	0.00	--	0.00
Cash	0.00	--	0.00
Total	**6.16**	**5.82**	**0.33**

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 29 February 2024

Maturity Breakdown (Option adjusted duration)	Fund	Reference Benchmark	Relative
0-2 years	0.18	0.16	0.02
2-5 years	0.85	1.09	-0.24
5-10 years	1.26	1.58	-0.32
10+ years	3.86	2.99	0.87
Total	**6.16**	**5.82**	**0.33**

Sector allocation (%)	Fund	Reference Benchmark	Relative
Financials	48.89	45.68	3.21
Utilities	23.68	19.67	4.01
Telecommunications	5.35	6.09	-0.74
Gilts	4.59	--	4.59
Consumer Services	4.15	8.00	-3.85
Consumer Goods	2.90	7.19	-4.29
Mbs	2.70	--	2.70
Industrials	1.77	3.90	-2.13
Health Care	1.28	2.22	-0.94
Oil & gas	1.03	2.09	-1.06
Other Sectors	2.04	5.16	-3.13
Cash	1.62	--	1.62

Top 10 holdings	Weight (%)
NATWEST GROUP 3.125 28/03/27	2.10
BARCLAYS PLC 3.750 22/11/30	1.92
M&G PLC 3.875 20/07/49	1.65
AT&T INC 2.900 04/12/26	1.63
UK TSY GILT 1.250 31/07/51	1.56
SCOTTISH & SOUTH 8.375 20/11/28	1.53
SANTANDER UK GRP 2.920 08/05/26	1.52
ROTHESAY LIFE 5.500 17/09/29	1.51
BARCLAYS PLC 8.407 14/11/32	1.50
NATWEST GROUP 3.619 29/03/29	1.43

Source: HSBC Asset Management, data as at 29 February 2024

Monthly performance commentary

Strategy

Our overweight to credit was positive to relative performance, as Investment Grade, High Yield and Emerging market credit markets saw spreads tighten. Our overweight to duration was a detractor as yields rose due to investors pricing out earlier rate cuts.

Strong macro data in the US with hot Employment and Inflation combined with FOMC chair Powell pushing back against market expectations of early rate cuts saw the US 10yr yield 35bp higher, thereby pushing UK 10yr Gilt yields 27bp higher, despite weaker UK inflation and GDP data. Since the end of the year, Gilt yields are over 50bp higher.

Despite the higher rates, risk markets performed strongly with stock markets testing new highs in the US and Europe, and credit spreads continuing to grind tighter. US Commercial Real Estate (CRE) exposure concerns re-emerged when the share price of New York Community Bank fell 40% due to large increases in loan losses, causing US Regional bank stocks to slump for their worst performance since the SVB crisis. Further, Aozora Bank of Japan's stock fell 33% and German banks such as Deutsche and Commerzbank CRE exposures were also under the spotlight after Deutsche missed revenue expectations on US CRE losses. However, these concerns were considered localised and idiosyncratic in nature and with no systemic concerns, there was no contagion, allowing the European and UK credit indices to tighten further ending the month 8-10bp tighter.

Market technicals remained strong particularly in sterling corporates where continued investor inflows were not met by sufficient new issuance supply, as the higher all-in yields increased the attraction of fixed income despite credit spread valuations beginning to look stretched. Due to the supply/demand imbalance, new issues could come with relatively low concessions and still perform strongly in secondary trading driven by large order books.

There were no major changes to fund positioning, but we took the opportunity to increase some duration as yields rose. We did take advantage of the issuance that did come particularly at the long-end where we have an underweight position as the strong demand from the Pension Risk Transfer market will underpin the longer corporates despite current tight spreads. These were funded by taking profits in strong performing credits and some of the tactical purchases made in previous weeks, so that overall credit beta did not increase.

Whilst we do not expect any weakening in credit markets in the near term, we will look to ease some of our overweight credit beta, as valuations are getting stretched and we do not see much scope for further tightening of credit spreads. We continue to retain our off-benchmark ABS and non-sterling holdings based on continued attractive relative valuations.

Outlook

February was a strong month for credit markets. Global investment grade (IG) tightened 4bp as measured by the Bloomberg Global Aggregate Corporate Index while global high yield (HY) tightened 36bp according to the ICE BofA Global High Yield Index. Emerging markets (EM) performed strongly, with JP Morgan's Emerging Bond Index Global Government Index tightening 29bp while EM IG tightened 12bp and EM HY tightened 68bp. Asia HY generated a positive return of around 2%.
Generally, we remain modestly constructive on the overall credit outlook. Overall, we think spreads across all currencies are beginning to look tighter from a valuation perspective and so we have trimmed down some risk from portfolios. The market continues to remain fixated on when, and by how much, the Fed will cut interest rates. The bias is to continue maintaining an overweight carry positioning, given that both yields and spreads in certain pockets of the credit market continue to offer attractive opportunities.

The stocks mentioned are for illustrative purposes only and are not investment advice, investments have risks.
Source: HSBC Asset Management, data as at 29 February 2024

Risk disclosures

- 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.
- Liquidity is a measure of how easily the Fund's holdings can be quickly converted to cash. The value of the Fund's holdings may be significantly impacted by liquidity risk during adverse market conditions.
- Further information on the potential risks can be found in the Key Information Document (KID) and/or the Prospectus or Offering Memorandum.

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Source: HSBC Asset Management, data as at 29 February 2024

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Glossary

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