Investment case
Halbis London Fixed Income Team Key Strengths

- **Experienced and Stable Team**: Core investment team has been together for over four years.
- **Global Footprint**: London team leverages local market knowledge and insights from other Halbis teams worldwide.
- **Deep Capabilities**: History of investing in a wide variety of instruments, including local currency, derivatives, corporates and securitized debt.
- **Innovative Approach**: Combining derivatives with cash instruments in government and corporate funds.
- **Performance Orientation**: Strong performance across strategies on an relative and risk-adjusted basis.
- **Alignment of Interest**: Manager compensation aligned with client performance.
Andrew Cope (20)
Head of London Fixed Income Team

Portfolio Managers
- Geoff Lunt (16)
- Christine Johnson (10)
- Azim Meghji (8)

Research Analysts
- Stuart Atwell (9)
- TBA

Product Management
Marcus Pakenham (23)

* ( ) Denotes years of experience
Overview of Approach

► Investment Philosophy:
  ▪ We believe that markets are not ‘strongly efficient’. Expectations reflected in asset prices are not accurate enough to prevent profitable active investing.
  ▪ We combine fundamental analysis with assessments of market behaviour.
  ▪ Team judgement drives investment decisions.
  ▪ Size of active positions depends on conviction of investment views.

► Objectives
  ▪ Provide clients superior returns that outperform their target over a full market cycle

No assurance can be given that the investment objective, including performance will be achieved.
### Investment Process

#### Decision Making Framework: Global Aggregate

<table>
<thead>
<tr>
<th>Weekly (government)</th>
</tr>
</thead>
<tbody>
<tr>
<td>London team weekly government meeting</td>
</tr>
<tr>
<td>- Input from Halbis fixed income Strategic Investment Committee</td>
</tr>
<tr>
<td>- London team fund managers</td>
</tr>
<tr>
<td>- Review monetary policy, market behaviour and asset prices</td>
</tr>
<tr>
<td>- Determine allocation and yield curve targets for all strategies</td>
</tr>
</tbody>
</table>

#### Output: Model Portfolios

<table>
<thead>
<tr>
<th>Weekly (credit)</th>
</tr>
</thead>
<tbody>
<tr>
<td>London team weekly credit meeting</td>
</tr>
<tr>
<td>- Fund managers and research analysts</td>
</tr>
<tr>
<td>- Inputs from Global Credit Research Platform and other credit managers</td>
</tr>
<tr>
<td>- Review credit cycle and change in name investment views</td>
</tr>
<tr>
<td>- Idea review and selection</td>
</tr>
</tbody>
</table>

#### Output: Security Selection

<table>
<thead>
<tr>
<th>Daily</th>
</tr>
</thead>
<tbody>
<tr>
<td>Daily reports produced</td>
</tr>
<tr>
<td>- Exposures by strategy to ensure portfolios are in line</td>
</tr>
<tr>
<td>- Risk report on all accounts</td>
</tr>
</tbody>
</table>

#### Output: Daily Reports

<table>
<thead>
<tr>
<th>Global Strategic Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Credit Research Platform</td>
</tr>
</tbody>
</table>

Information shared with team, risk, compliance, and management
Investment Process: Global Aggregate

Process factors
- Monetary policy analysis
  - Economic views
  - Central Bank watch
- Market behaviour
- Asset prices
  - Sector fundamentals
    - Macro economic trends
    - Industry factors
    - Company analysis
- Credit
  - Halbis Global Credit Research Platform

Output: strategy inputs

Strategy selection
- Alpha sources
  - Duration
  - Yield Curve
  - Allocation
  - Security Selection
- Fundamental analysis to determine best trade ideas, exploiting themes and value opportunities
- Determine risk units of position, reflecting investment conviction
- Consistent positioning with global government and global credit funds

Output: trade ideas

Portfolio implementation
- Implement trade ideas
- Determine optimal position sizes
- Manage positions – e.g. initiate, incremental purchase, partial sale, exit

Output: client portfolio

Risk monitoring
- Continuous assessment of portfolio positioning
- Ensure adherence to strategy and client specific guidelines

Output: assessment of portfolio positions
# Sources of Alpha: Global Aggregate

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Description</th>
<th>Example</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Duration</strong></td>
<td>Active management of duration to benefit from expected rises or falls in bond yields</td>
<td>Portfolio duration below benchmark, 4.5 years versus 5.3 years</td>
<td>Bond yields likely to rise from pressure of new government issuance and economic stability/improvement</td>
</tr>
<tr>
<td><strong>Yield Curve</strong></td>
<td>Active management of maturities to benefit from expected changes in the shape of the yield curve</td>
<td>Neutral</td>
<td>We expect a broad rise in all parts of curve, short end likely to rise less</td>
</tr>
<tr>
<td><strong>Allocation</strong></td>
<td>Active management of allocation to government, agency and corporate debt (Benchmark: 50% govt/14% agency mortgage backed securities /36% credit)</td>
<td>Neutral govt and agency MBS. Neutral credit, but overweight credit beta (higher spread)</td>
<td>Opportunity remains in credit spreads despite tightening so far this year.</td>
</tr>
<tr>
<td><strong>Security Selection (Credit)</strong></td>
<td>Selection of individual securities</td>
<td>Overweight senior bank debt and selected subordinated financial credit</td>
<td>Expectation of further normalisation in bank spreads given continued govt support.</td>
</tr>
</tbody>
</table>
Exploiting Alpha Opportunities: Global Aggregate

- This table illustrates likely sources of alpha/risk contributions for a global aggregate portfolio with an outperformance target of 100bp investing under normal market conditions.

<table>
<thead>
<tr>
<th>Sources of Alpha</th>
<th>Contribution to Risk</th>
<th>Instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Duration</td>
<td>35%</td>
<td>Govt bonds or futures</td>
</tr>
<tr>
<td>Yield Curve</td>
<td>10%</td>
<td>Govt bonds or futures</td>
</tr>
<tr>
<td>Allocation</td>
<td>35%</td>
<td>Govt, Agencies, Corporate, ABS</td>
</tr>
<tr>
<td>Security</td>
<td>20%</td>
<td>Govt, Agencies, Corporate, ABS</td>
</tr>
</tbody>
</table>

- Position sizes are calibrated to reflect client risk tolerance.
- The Contributions to Risk in the table are long-run contributions.
- The overall level of risk and its distribution are a direct result of our market views at that time.
Global Credit Research Platform

- Global team of 34 credit analysts in New York, London, Paris, Düsseldorf, and Hong Kong
  - Seasoned organisation combining global consistency and local flexibility
  - Joint investment grade/high yield approach covering over 800 IG issuers and about 200 HY issuers
  - Global management to ensure common practices, high quality standards and sophisticated tools

- Consistent credit process that emphasizes in-depth fundamental analysis, with analysts taking a proactive, forward looking approach
  - Comprehensive and reliable approach with identified coverage serving liquidity and active bond management

- Large team of highly experienced analysts allows for intensive industry and issuer coverage
  - Size of team provides superior access to senior management teams and sell-side resources
  - Cross-fertilisation with analysts from the different sector groups to share views during the regular sector reviews and calls

* Some analysts cover both investment grade and high yield credits.*
Global Credit Research Resources

Identified coverage and service

Systematic Coverage

On-Demand Coverage / Market Opportunities

INVESTMENT TEAMS

GLOBAL LIST

Monitoring of 300 Global Issuers*
Maintenance of in-house ratings, outlooks, investment approvals and investment recommendations
Initial full report followed by comments on earnings and credit events

LOCAL LIST

Monitoring of ~700 Local Issuers
If held in local portfolios or on PM’s request
Communication maintained mostly on an oral basis (formal approvals or limits on investments)

Source: HSBC

* Frequent, large and often multi-currency issuers
## Fundamental credit analysis

### Business profile
- **Industry**
  - Capital intensity, cyclicality, competition, barriers, technological hurdles. Identification of trends
- **Business position**
  - Competitive advantages, product and geographical diversification
- **Strategy / management**
  - Continuity, vision

### Financial profile
- **Profitability & cash flow**
  - Level and stability, consistency between strategy and financing capacity
- **Debt**
  - Level, stability, diversification of financing, maturity
- **Structuring**
  - Analysis of holding companies, possible structural subordination (debt location, securitisation etc.)

### Investment Grade

<table>
<thead>
<tr>
<th>Dynamic</th>
<th>Static</th>
</tr>
</thead>
<tbody>
<tr>
<td>30%</td>
<td>70%</td>
</tr>
</tbody>
</table>

### High Yield

<table>
<thead>
<tr>
<th>Dynamic</th>
<th>Static</th>
</tr>
</thead>
<tbody>
<tr>
<td>70%</td>
<td>30%</td>
</tr>
</tbody>
</table>

- Phase in the cycle, stability of the environment (competition, technology)
- Market leader vs second tier player, competitive strategy
- Management commitment, ability to execute, strategy consistency
- Operational free cash flow generation, presence of alternative sources of liquidity
- Leverage and coverage ratios, maturity schedule
- Senior vs subordinated, secured vs unsecured, covenants

*Source: Halbis – For illustrative Purpose Only*
Credit Reports

- Initial review and regular updates to ensure due diligence
- Objective is to determine medium term rating, risk profile and short/medium term catalysts

Sample Credit Report

<table>
<thead>
<tr>
<th>Ratings</th>
<th>S&amp;P</th>
<th>Moody’s</th>
<th>Fitch</th>
<th>HSBC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior unsecured</td>
<td>A+</td>
<td>A1</td>
<td>NR</td>
<td>A+</td>
</tr>
<tr>
<td>Short-term rating</td>
<td>A-1</td>
<td>P-2</td>
<td>NR</td>
<td>A1</td>
</tr>
<tr>
<td>Outlook</td>
<td>Stable</td>
<td>CR Neg</td>
<td>NR</td>
<td>SN</td>
</tr>
</tbody>
</table>

The Company in brief:
XXXX’s principal activities are the provision and management of airport facilities in the United Kingdom and overseas. The Group is also involved in airport-related property development and duty free retailing and operates the Heathrow Express rail link between Heathrow and Paddington. The United Kingdom airports owned and operated by the Group are Heathrow, Gatwick, Stansted, Glasgow, Edinburgh, Aberdeen and Southampton, transporting 128 million passengers a year. Airports accounted for 75% of fiscal 2002 revenues; World Duty Free, 18%; rail, 3%; YYYY, 3% and other operations, 1%.

Strengths
- CAA is a supportive regulatory body
- Dominant position in the UK as the owner of Heathrow, Gatwick and Stansted Airports
- Cash generative business

Weaknesses
- Major capex programme restricting flexibility
- Increasing gearing, with Net Debt/Capital estimated to reach 89% in 2010
- Limited ability to influence passenger growth

Opportunities
- Further terrorist attacks leading to reduced air travel
- Potential for delays and cost overruns in capital expenditure programme

Opinion SLIGHTLY NEGATIVE
We have a slightly negative opinion on XXXX Plc. Despite owning and operating the three main UK airports (Heathrow, Gatwick and Stansted) and having the support of a friendly Civil Aviation Authority in setting pricing caps, we feel that the £8.9bn capital expenditure programme is demanding both in terms of financial strain on the company and attention required by management. We feel that there is limited upside, with possible event risk including potential cost overruns and further terrorist attacks effecting consumer confidence in air travel.

Key issues to watch
- Monthly air traffic data
- Announcements of cost overruns/delays to capex programme

Standard & Poor’s, June 2003
'The outlook factors in a weakening of the financial profile on the back of its large investment program and provides some headroom at this rating level. The business profile is expected to remain stable and supportive, apart from industry event risk'

Moody’s, June 2003
'The rating review has been prompted by Moody’s expectation that XXXX will be increasing its debt levels materially over the next few years to pay for its large capital expenditure programme. Moody’s review will focus on the expected...'

Key Figures 2002 | £ mln
--- | ---
Sales | 1,933
EBITDA | 856
Cash | 1,156
Net debt | 2,139
FCF | 55

Key Ratios 2002
- EBITDA% | 44.3%
- Net debt / cap | 27.2%
- EBIT / Interest | 2.9x
- Net debt / EBITDA | 2.5x

Source: Halbis – For illustrative Purpose Only
Follow Ups

- Frequent comments to review the newsflow, check the scenarios and relative value

Follow-Up for Degussa AG (as at 11 May 2005)

<table>
<thead>
<tr>
<th>Date</th>
<th>Headline</th>
<th>Event</th>
<th>Decision</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>04/21/2005</td>
<td>Start of tightening again ?</td>
<td>Relative Value</td>
<td>Rec Change</td>
<td>High</td>
</tr>
</tbody>
</table>

Description

The Degussa 13 bond widened from 40 BP to 64 BP during the last weeks; the premium increased by 9 Points.

Credit Opinion

As Degussa is a relative stable and 'conscious' credit, this seems too much to me therefore, I change my REC from neutral to positive.

Source: Halbis – For illustrative Purpose Only
Relative Valuation

- Measured with daily calculation of risk premium against normalised spread curves by rating
- Helps to screen opportunities, quantify target spreads and facilitate market timing

- Proprietary model, fitted by credit analysts
- Curves measure the standard spread for each rating/maturity point
- Risk premium is the abnormal remuneration for credit risk (in bps)
- Allows to systematically detect attractive relative value opportunities
- Combined with extensive fundamental research

Source: Halbis – For illustrative Purpose Only
Halbis CORP – Global Credit Research / Eligible Universe / Portfolio Monitoring

- One-stop website to view all research, global holdings, open limits or approvals
- Comprising a daily-fed 10,000+ global bond and CDS database
- Secured and efficient for portfolio managers
- Allowing analysts to focus on alpha
Biographies
London Fixed Income team biographies

Andrew Cope, Head, London fixed income
Andrew Cope is head of the London fixed income team and has been working in the industry since 1988. Prior to joining the firm in 1998, Andrew worked for Paribas Asset Management as a global fixed income fund manager and for the Bank of England as an economist and fixed income manager in the foreign exchange department. He holds a BSc and MSc from London University.

Geoff Lunt, Fund Manager, London fixed income
Geoff Lunt is a fund manager in the London fixed income team and has been working in the industry since 1992. Prior to joining the firm in 2003, Geoff worked for Investec Asset Management managing bond funds for insurance companies, Building Societies and UK local authorities. Before that he was a director of Plough Court Fund Management. He holds a degree in Classics from the University of London.

Christine Johnson, Fund Manager, London fixed income
Christine Johnson is a fund manager in the London fixed income team and has been working in the industry since 1998. Prior to joining the firm in 2004, Christine worked for Investec Asset Management as a high yield fund manager and for Royal and Sun Alliance Asset Management as a credit analyst. She holds an Honours degree in Economics.
Azim Meghji, Fund Manager, London fixed income

Azim Meghji is a fund manager in the London fixed income team and has been working in the industry since 2000. Prior to joining the firm in 2001, Azim worked for Deutsche Bank in the structured credit team. He holds a degree in Economics, the IMC and SFA qualifications and is a CFA charterholder.

Stuart Atwell, Credit Analyst

Stuart Atwell covers Sterling denominated investment grade corporate bonds in the London fixed Income team and has been working in the industry since 1999. Prior to joining the firm in 2002, Stuart worked for J.P. Morgan Fleming Asset Management in a similar role. He holds a BSc in Business Administration from the University of Bath and the Investment Management Certificate.
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