We can’t predict the future, but we can help unlock it

Global Credit

For professional clients only
Our commitment to you

As the asset management division of HSBC, our role is to help connect our clients with investment opportunities around the world.

We believe in a long-term approach to investing and doing the right thing for our clients. As you would expect from a firm committed to long-term client relationships, our investment philosophy is characterised by clarity and focus, disciplined application and high standards of governance.
With global economic conditions showing increasing signs of sustainable improvement, and as some quantitative easing (QE) programmes are scaled back, we expect that longer-dated government bond yields should trend higher over the medium term. This leads to the challenge of where fixed income investors should be positioned.

In this environment, government bonds and high-grade corporate bonds may struggle to achieve positive returns given their low starting yields and the headwind of rising yields. On the contrary, we believe that lower-rated corporate bonds, such as BBB-rated, high-yield BB and B-rated issuances, may provide attractive returns for investors in this scenario. These areas tend to have higher starting yields and the duration, or sensitivity to movements in government bond yields, is generally lower than for higher-rated corporate bonds. In addition, the corporate sector is generally fundamentally strong with solid balance sheets whilst the valuations of corporate bonds are currently reasonable.

In this potential environment of rising long-term government bond yields, we see advantages by positioning portfolios across one of HSBC Global Asset Management’s three key global credit fixed income funds:

- HSBC GIF Global High Income Bond Fund
- HSBC GIF Global High Yield Bond Fund
- HSBC GIF Global Short Duration High Yield Bond Fund

These funds have different exposures to investment risks and so may be suitable for investors depending on their risk appetite and tolerance.

Past performance is not an indication of future returns.
The more positive economic environment and the expectation of continued global growth has led us to conclude that the current opportunity within fixed income is in lower-grade shorter-duration issuance.

We can’t predict the future movements of credit markets, but by taking historical patterns of bond yields and policy rates as our guide, we believe we will continue to see a gradual rise in yields on longer-dated government securities and continued opportunities within some credit markets.

Understanding the future from the past

The graph below illustrates the previous cycles of rising government yields and policy interest rates (grey sections) from 1994. 10-year yields tend to move well ahead of policy rate increases, while the two-year yields rise more closely with the timing of the policy rate increase. Consequently, over the next three to four years we would expect that 10-year yields may well move higher, ahead of the expected first policy rate increase.

In the past, long term government bond yields have been close to rates of nominal GDP growth. Nominal growth is broadly defined as the real growth rate plus inflation. Looking forward, in the US this nominal growth might be between 4% and 4.5%, while in Europe it might be in a slightly lower range of 3.5% to 4%.

At the current time, long term government bond yields are well below these levels (using German yields as a proxy for the Euro area). We would therefore expect US government bond yields to move closer to this 4% over the next two to three years. Meanwhile, shorter government yields, such as for two-year bonds, are expected to be held down by very low policy interest rates. In the US, these policy interest rates are unlikely to move higher until 2015 or early 2016. As a result, short-term bond yields are likely to remain low for some time. We would expect Euro government yields to follow similar broad trends although with a lag, reflecting the different timing and pace of economic improvement in the US and the Euro area.

Recent periods of rising US government yields and policy rates

Source: Bloomberg and HSBC Global Asset Management, data to 16 August 2013. Past performance is no guarantee of future results.

Corporate bonds have often provided positive returns despite rising government yields as the yield spread between the two security types has fallen. Rising government bond yields usually reflect stronger economic conditions. This is generally positive for the corporate sector as the stronger economic conditions tend to be positive for company fundamentals and the risk premium for owning corporate bonds can fall. This is captured through lower yield spreads between government and corporate bonds.

We believe that a gradual shift towards lower-rated global credit, such as BBB–B, is required to take advantage of the changing environment as the global economy gains momentum.
At HSBC Global Asset Management, we believe that we have the key investment solutions to unlock the opportunities as we enter a transition phase in the bond market cycle.

- **Expertise** - our global credit capability consists of stable and experienced fund management and credit analyst teams. Our credit funds are managed by US, European, emerging markets and asset-backed securities credit specialists founded on key proprietary research. Our team of over 35 credit analysts, each dedicated to a sector and region, actively seek out credit issuances they believe have the most potential.

- **Actively Managing the Sources of Return** - our funds seek to deliver attractive risk-adjusted returns through multiple sources of potential returns with low correlations. The active management of risk-adjusted returns can help provide performance throughout various market cycles. We seek to add value in our global credit funds with 50% of the active return expected from issuer selection.

- **Understanding risk** - identifying, pricing and combining risks is the foundation of our fixed income approach. Our stringent risk-budgeting process allows us to help meet increased client risk demands through taking appropriate risks in a transparent manner.

- **Research** - intensive research is the key to identifying issuer risk and potentially delivering consistent performance: fundamental credit views are the primary drivers in selecting bonds and allocating to industries; and we use valuation tools to help identify the best opportunities.

- **Solutions** - our global credit income funds aim to meet client objectives with different combinations of duration, credit risk and currency return.

*Targets are estimates based on internal trade modeling and correlation matrices. Actual contributions may vary over time depending on the investment strategy.*
The case for global credit

Global growth is expected to continue to improve

As we see economic activity gain momentum in most developed markets, the prospect of rising government bond yields will likely become a more central investment topic as we move into 2014.

Global growth is expected to be moderate, although below trend, for 2013 in most developed economies. We also expect further improvement in global growth in 2014. We believe that economic performance has been very reasonable given the impact of government austerity campaigns. The International Monetary Fund (IMF) has estimated that the impact of this fiscal drag in 2013 has been -1.8% in the US, -1.1% in the UK and -1.1% in the Euro area.

One reason why we expect economic growth to improve in 2014 is that these ‘fiscal drags’ should ease to -0.7%, -1.0% and 0% in these respective areas, according to the IMF.

Forecasts for 2013 and 2014 GDP growth

Source: Consensus Economics Inc, 12 August 2013. Past performance is no guarantee of future results. Any forecast, projection or target contained herein is for information purposes only and is not guaranteed in any way. HSBC accepts no liability for any failure to meet such forecasts, projections or targets.

The economic growth outlook should be positive for corporate bonds. The quality of balance sheets are affected by economic conditions with rising sales and healthy liquidity conditions generally good for company fundamentals. In particular, defaults in high yield are usually linked with broad financial distress and difficult economic conditions, which we do not expect. It is interesting to note that Moody’s utilise the unemployment rate as a key component in default forecasts.

Global monetary conditions have also improved

An important component of any economy is monetary conditions. Broad money is largely created and held within the private banking system. In the US and Europe, since the economic crisis in 2008, banks have generally struggled with weak balance sheets, which has led to difficult monetary conditions for corporates and individuals. Indeed, various policy measures by central banks, including QE programmes, were enacted partly to improve liquidity conditions and help money flow through the banking system. Recently, banks have made great strides with loan losses and by raising capital ratios. Banks are now generally in a better condition to support economic growth without additional support from central banks.

Meanwhile, lending conditions in the US and Europe have generally improved, as the chart below suggests. Banks are regularly asked if their customer lending conditions are being tightened or loosened. A rising line shows an improving situation. The significant banking problems after the Lehman collapse can be seen in late 2008 with a rapid improvement in 2009. The dip in late 2011 reflected lower confidence while the Euro area grappled with sovereign debt issues in Italy and Spain.

Meanwhile, the corporate sector is healthy and valuations are reasonable

Unlike governments, the corporate sector, ex financials, was in pretty good shape going into the economic crisis in 2008-2009 with reasonable balance sheets, good margins and healthy cash flows. The severe problems in the banking system were very problematic for day-to-day liquidity management. Central bank operations were initiated to help banks continue support for the wider corporate sector.

The situation in late 2008 and early 2009 was very difficult and most corporate management teams reduced costs and conserved cash. This broadly conservative stance has placed the corporate sector in a strong position to ride out the subsequent economic landscape with growing cash flows in most sectors in the US and Europe. Banks have also made great strides in increasing capital and liquidity ratios.

As US economic growth picks up momentum and Europe emerges from recession, we are seeing growth of leverage in some areas, but cash flows remain moderate and ratios that measure the ability to service debt are well within acceptable ranges. The graph below shows the earnings before interest, tax, depreciation and amortisation (EBITDA), a broad measure of cash flow, in relation to the interest
expense on debt. This shows that this ratio has risen strongly since the economic recession in 2009 and is close to the highest levels since 1998.

**Global high yield charge coverage ratio: EBITDA/interest expense (rolling 12 months)**

![Graph showing HY Coverage Ratio from 1998 to 2012](source: Bank of America Merrill Lynch as of 30 June 2013. Any forecast, projection or target contained in this presentation is for information purposes only and is not guaranteed in any way. HSBC accepts no liability for any failure to meet such forecasts, projections or targets. Past performance is no guarantee of future results.)

Furthermore, corporate defaults usually occur during periods of financial distress so this healthy fixed charge coverage ratio is an important signal that defaults should remain at a low level.

**Global high yield default rates (% of issuers)**

![Graph showing default rates from 1999 to 2013](source: Bank of America Merrill Lynch as of 30 June 2013. Any forecast, projection or target contained in this presentation is for information purposes only and is not guaranteed in any way. HSBC accepts no liability for any failure to meet such forecasts, projections or targets. Past performance is no guarantee of future results.)

Corporate bonds tend to have a higher yield than government bonds. The spread between a corporate and its government bond is a measure of valuation for the corporate bond. This spread can reflect the risk of the corporate bond not being repaid in full versus a ‘risk-free’ government bond. This can be reflected in a rating downgrade for investment grade, or a rating downgrade - or possible default for a high yield company. In addition, spreads can reflect taxes, liquidity, economic uncertainty and supply and demand factors.

Below we consider various measures to assess the valuation of corporate debt, especially the lower-rated credit such as BBB, BB and B rated bonds.

One broad measure of valuation is comparing the yields of various qualities of bonds with historic loss rates. Here, loss rates reflect 100% defaults less the recovery that is made for investors as bond holders often receive some level of repayment after a company defaults. The graph on the following page shows this relationship and highlights the gap between the current level of yields and the historic loss rates for BBB, BB and B rated bonds.

Credit spreads have moved within very large ranges since the crisis but the amplitude of swings has reduced. As investors increasingly look at corporate credit from a fundamental stand point, we expect yield spreads to be much less volatile and indeed should be able to fall over time.

**Global fixed income corporate yields and loss rates (%)**

![Graph showing yield to worst](source: Yield data source: Bloomberg, Bank of America Merrill Lynch Global Broad Market Composite and Global High Yield indices. Credit loss data source: Moody's Annual Default Study “Corporate Default and Recovery Rates, 1920-2012”, dated 28 February 2013. Past performance should not be seen as an indication of future returns. The information above is provided by and represents the opinions of HSBC Global Asset Management and is subject to change without notice.)

**Barclay’s indices option adjusted spreads (%)**

![Graph showing spread data source: Barclays Live. Barclays bond indices, 31 July 2013. Past performance should not be seen as an indication of future returns. The information above is provided by and represents the opinions of HSBC Global Asset Management and is subject to change without notice.](source: Spread data source: Barclays Live. Barclays bond indices, 31 July 2013. Past performance should not be seen as an indication of future returns. The information above is provided by and represents the opinions of HSBC Global Asset Management and is subject to change without notice.)
Clients seeking opportunities in global credit can gain exposure through an experienced manager such as HSBC Global Asset Management. Our expertise in global credit can be accessed through a range of actively-managed solutions; whether through open-ended funds or dedicated mandates.

Our global credit strategies cover a range of duration, regional and rating combinations and our flagship open-ended funds cover major segments in the global credit universe.

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### HSBC GIF Global High Income Bond
- **Base Currency**: US dollar
- **Benchmark**: BofA Merrill Lynch Global High Yield BB-B Constrained (USD Hedged)
- **Fund Manager**: Jerry Samet
- **Max management fees**: 1.55% (E Class)
- **Fund size (millions US dollar)**: 1,785.00
- **Number of holdings**: 748
- **Yield to Maturity (Gross)**: 4.8
- **Duration**: 5.00
- **Average quality**: BB+
- **Annual Management Charge**: 1.25% (AC Class)
- **Ongoing charge**: 0.25% (AC Class)
- **ISIN code**: AC: LU0524291613

### HSBC GIF Global High Yield Bond
- **Base Currency**: US dollar
- **Benchmark**: BofA Merrill Lynch Global High Yield BB-B Constrained (USD Hedged)
- **Fund Manager**: Mary Bowers
- **Max management fees**: 1.40% (E Class)
- **Fund size (millions US dollar)**: 1,079.00
- **Number of holdings**: 403
- **Yield to Maturity (Gross)**: 5.71
- **Duration**: 4.20
- **Average quality**: BB-
- **Annual Management Charge**: 1.1% (AMUSD Class)
- **Ongoing charge**: 0.25% (AMUSD Class)
- **ISIN code**: AMUSD: LU0780247044

### HSBC GIF Global Short Duration High Yield Bond
- **Base Currency**: US dollar
- **Benchmark**: BofA Merrill Lynch 1-3 Year BB-B US & Euro Non-Financial High Yield 2% Constrained (USD hedged)
- **Fund Manager**: Mary Bowers
- **Max management fees**: 1.30% (E Class)
- **Fund size (millions US dollar)**: 19.81
- **Number of holdings**: 74
- **Yield to Maturity (Gross)**: 4.6
- **Duration**: 2
- **Average quality**: BB-
- **Annual Management Charge**: 1.0% (AC Class)
- **Ongoing charge**: 0.25% (AC Class)
- **ISIN code**: AC: LU0922809933

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**Source**: HSBC Global Asset Management as at 30 June 2013. For illustrative purposes only. Past performance is no guarantee of future results. Fund characteristics are subject to change without notice. The average quality rating is calculated utilizing the Barclays methodology of a weighted average of each fund’s holdings and taking the middle rating of S&P, Moody’s or Fitch or the lowest where only two ratings are available. There is no guarantee a fund’s investment objective will be achieved. Investing involves risks including the possible loss of principal.
### Aim (please refer to the Prospectus for the full Investment Objective of these funds).

<table>
<thead>
<tr>
<th>Fund Name</th>
<th>Investment Objective</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>HSBC GIF Global High Income Bond</strong></td>
<td>The sub-fund invests for high income primarily in a diversified portfolio of higher yielding fixed income bonds and other similar securities from around the world denominated in a range of currencies. This may include Investment Grade bonds, High Yield bonds and Asian and Emerging Markets debt instruments. Investment in mortgage and asset backed securities will be limited to a maximum of 20% of the sub-fund net assets.</td>
</tr>
<tr>
<td><strong>HSBC GIF Global High Yield Bond</strong></td>
<td>The sub-fund invests for total return primarily in a diversified portfolio of Non-Investment Grade and unrated fixed income securities issued by companies, agencies or governments from any country, in both developed and Emerging Markets and denominated in or hedged into United States dollars (USD). On an ancillary basis, the sub-fund may invest in asset backed securities (limited to a maximum of 10%) and Investment Grade fixed income securities, and have exposure to non-USD currencies including Emerging Markets local currencies (up to a maximum of 20%) to enhance return. Normally, a minimum of 90% of the sub-fund will be invested in Non-Investment Grade and other higher yielding bonds (including unrated bonds). However, for liquidity management purposes, the sub-fund may also invest up to 30% in Emerging Markets local currencies (up to a maximum of 20%) to enhance return. Normally, a minimum of 90% of the sub-fund will be invested in Non-Investment Grade and other higher yielding bonds (including unrated bonds). However, for liquidity management purposes, the sub-fund may also invest up to 30% in Investment Grade fixed income securities.</td>
</tr>
<tr>
<td><strong>HSBC GIF Global Short Duration High Yield Bond</strong></td>
<td>The sub-fund invests for long term total return whilst maintaining low interest rate risk in a portfolio of global high yield securities. The fund’s primary currency exposure is to the US dollar (USD). The sub-fund invests (normally a minimum of 90% of its net assets) in Non-Investment Grade and unrated fixed income securities and other higher yielding bonds issued by companies, agencies or governments in developed markets and denominated in or hedged back into USD. However, for liquidity and/or risk management purposes, the sub-fund may also invest up to 30% in Investment Grade fixed income securities. On an ancillary basis, the sub-fund may also invest in Asset Backed Securities (“ABS”) (limited to a maximum of 10%), in fixed income securities issued in Emerging Markets (up to a maximum of 10%) and have exposure to non-USD currencies including Emerging Markets local currencies (up to a maximum of 10%) to enhance return.</td>
</tr>
</tbody>
</table>

Source: HSBC Global Asset Management as at 30 June 2013. For illustrative purposes only. Past performance is no guarantee of future results. Fund characteristics are subject to change without notice. There is no guarantee a fund’s investment objective will be achieved. Investing involves risks including the possible loss of principal.

The HSBC GIF Global High Yield Bond is an unregulated collective investment scheme for UK Regulatory purposes. The promotion of the fund is therefore restricted in the UK by the Financial Services and Markets Act 2000 and this document can only be issued to persons permitted under COBS 4.12 of the FCA Handbook including existing investors in the fund.
Our investment process

Our objective is to deliver competitive risk-adjusted returns. We seek to understand and price investment risks through fundamental research and valuation work and combine these risks efficiently within agreed risk budgets. Our overall approach is to take investment decisions in local fund management teams which use common global processes and share global research resources. Intensive credit research is at the heart of the funds and most of the applicable investment resources are dedicated to this area.

Our process is in two stages

1. Top-down framework based on regional allocations, duration, beta and currency positioning

2. Bottom-up credit process for issue selection

For each global credit fund we have a lead fund manager in New York, who manages the top-down process, and local fund managers for regional sleeves.

The sleeves are managed in accordance with local portfolio construction decisions. Credit analysts, within our global credit research team, are responsible for defining the investable universe and investment recommendations on individual issuers and bonds.

The lead fund manager has an overlay sleeve to manage the overall duration and credit risk at a fund level. In addition, we might take emerging market local currency risk in this overlay sleeve.

Top-down framework

We seek to add value through regional allocations, typically to US dollar, Euro and emerging markets sleeves. Within these investment areas, economic performance, company fundamentals and bond valuations may vary, driving divergent performance.

We have a Global Credit Allocation Committee which comprises all the fund managers involved in the global credit funds and meets formally twice a month. This group reviews positioning, global/regional investment risks and themes, key market influences and valuation metrics by regions, ratings, maturity and industry segments. The Committee sets exposures as appropriate for sleeve allocations, beta, currency positioning and duration.

Risk monitoring

Risk monitoring is an integral part of our investment process. It takes place at several levels. At the investment level, we define the parameters and the risk budget for each fund and each alpha source. These risk exposures are constantly monitored using our proprietary tool, HSBC Analytics for each sleeve and the overall fund. The Investment Risk Team carries out independent analysis, while a third level of control is carried out at HSBC Group level.
Bottom-up credit selection process

We have over 35 analysts in 10 countries. These are organised into sector teams and provide a global service. We show this coverage by region in the table below. So if a fund manager in New York wants to learn more about a Chinese company issuing a US dollar bond, he can look at the proprietary company research on our in-house database and call one of our analysts in Hong Kong.

Our bond credit research covers 1,200 issuers; 850 investment grade companies and 350 high yield companies. Within these two categories are 250 emerging markets corporates. One of our analysts will typically cover 30 to 40 names.

Investible universe

Issue selection is a critical stage in the process. We start by investigating the market opportunities to identify an investible universe for the fund managers. This involves a broad fundamental analysis covering business and financial factors.

Fundamental analysis

We then conduct more detailed fundamental analysis to further understand the drivers of corporate performance. This analysis is in two broad categories of business profile and financial profile, as detailed in the table below.

Relative valuation

Once we understand how a business operates, we assess the relative valuation of its bonds. Our standard valuation tool identifies the valuation of a bond in comparison with other bonds of similar rating and expected maturity (many high yield bonds are called prior to final maturity).

We also monitor the risk premium for each corporate bond to systematically identify attractive relative-value as they arise. Combined with our fundamental analysis, these valuation measures allow us to detect buy and sell signals. Additional fundamental analysis enables us to determine if these premiums are justified or not.

Teamwork between analysts and fund managers

Fund managers construct credit portfolios from analyst recommendations. There is regular and ad hoc contact between analysts and fund managers to facilitate idea generation and update on existing investments. While fund managers are responsible for all portfolio positions, the analysts define the eligible investment universe and are closely involved in the process of reaching investment decisions.

The research output is recorded in standard templates in our proprietary Credit Research and Relative Value website CorpRed. The valuation views on individual bonds and CDS are also recorded in this database. When this research is updated, an alert is sent to all the fund managers. There are regular industry and relative value meetings between credit analysts and fund managers.

Global research coverage

<table>
<thead>
<tr>
<th>Sector/Area of Coverage</th>
<th>US</th>
<th>Europe</th>
<th>Asia</th>
<th>LATAM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrials, Auto &amp; Transportation</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Telecom, Media &amp; Technology</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Financials &amp; Covered</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Consumer, Retail &amp; Healthcare</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Utilities</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Real Estate &amp; REITS</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
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<tr>
<td>ABS</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
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</tbody>
</table>

Business profile

| Industry | Stability/cyclical, long term sales trends, degree of competition, barriers to entry, technological change |
| Business position | Competitive advantages and likely trends, product and geographical diversification, business plan |
| Management/strategy | Financial policy, management commitment, track record, ability to execute strategy |

Financial profile

| Profitability & cash flow | Level and stability of cash flow and free cash flow, consistency between strategy and financing capacity, consistency between profits and cash flows |
| Debt & debt servicing | Level, financial diversification, maturity, assess other liabilities (pension, leases, product liability), interest cover |
| Structure | Analysis of capital structure, possible structural subordination (debt location, securitisation etc) |

Valuation analysis

| Spreads to history | Analysis of bond valuation with history |
| Spreads to similar bonds | Analysis of bond valuation with other bonds with similar ratings and characteristics |

Source: HSBC Global Asset Management as at 30 June 2013. For illustrative purposes only. Representative overview of the investment process, which may differ by product, client mandate or market conditions.
Sources of investment risk

Investors in our global credit funds can gain access to a range of investment risks in terms of regional exposure, ratings and duration.

<table>
<thead>
<tr>
<th>Investment universe</th>
<th>High Income</th>
<th>High Yield</th>
<th>Short Duration High Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primarily invests in global high income bonds</td>
<td>Primarily invests in global high yield bonds</td>
<td>Primarily invests global short duration high yield bonds</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Investment horizon</th>
<th>3 years</th>
<th>3 to 5 years</th>
<th>3 years</th>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Performance objective*</th>
<th>Seeks to outperform Barclays Composite Index*</th>
<th>Seeks to outperform BoFA ML Global HY BB-B Constrained (USD hedged)*</th>
<th>Seeks to outperform BoFA ML 1-3 Year BB-B US and Euro Non Financial 2% Constrained (USD hedged)*</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Expected performance drivers**</th>
<th>credit 90%</th>
<th>credit 90%</th>
<th>credit 90%</th>
</tr>
</thead>
<tbody>
<tr>
<td>rates 10%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Main index regional exposures</th>
<th>EM 35%, US 35%, Europe 30%</th>
<th>US 53%, Europe 26%, EM 16%</th>
<th>US 53%, Europe 40%</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Main index rating categories</th>
<th>BBB 49%, BB 35%</th>
<th>BB 48%, B 49%</th>
<th>BB 61%, B 34%</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Main index currency exposures</th>
<th>USD 100% (Index USD hedged)</th>
<th>USD 100% (Index USD hedged)</th>
<th>USD 100% (Index USD hedged)</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Index duration</th>
<th>5.3</th>
<th>3.9</th>
<th>1.7</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Expected annualized volatility***</th>
<th>6% to 10%</th>
<th>8% to 12%</th>
<th>4% to 6%</th>
</tr>
</thead>
</table>

Source: HSBC Global Asset Management as at 30 June 2013. Any objectives, expectations, and targets presented are indicative only, are not guaranteed in any way, and do not constitute any engagement on the part of HSBC Global Asset Management. HSBC Global Asset Management accepts no liability for any failure to meet these objectives, expectations, and targets. *These indices are for comparison purposes only. **Performance drivers are provided for illustrative purposes only, are indicative only, and based on the investment universe and strategy. ***Expected volatility herein is provided for illustrative purposes only. These expectations are based on volatility of the benchmark over a cycle, and then the overall objectives of the portfolio such as the targeted level of volatility for the fund and the overall out performance target, the outputs from the risk budgeting process (i.e expected tracking error), the risk profile of the investment strategy. ^Composite components: 20% Barclays US Corporate Baa; 15% Barclays US High Yield Baa; 15% Barclays EuroAgg Corporate Baa USD Hedged; 15% Barclays Euro HY BB Rating Only USD Hedged; and 35% Barclays EM USD Aggregate Index.

Potential Sources of alpha

As you would expect, we are seeking to provide investors in our global credit funds with multiple low-correlated sources of alpha. We seek to add value in all our global credit funds through:

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Description</th>
<th>Alpha Target*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issuer selection (fundamental)</td>
<td>Select issuers using proprietary fundamental credit research and spreads valuation tool</td>
<td>50%</td>
</tr>
<tr>
<td>Regional allocation</td>
<td>Allocations to US, Euro, EM and ABS sleeves (as applicable for fund)</td>
<td>15%</td>
</tr>
<tr>
<td>Sector allocation</td>
<td>Allocation to sectors within sleeves</td>
<td>10%</td>
</tr>
<tr>
<td>Credit allocation (beta)</td>
<td>Set the overall credit positioning according to the expected market conditions</td>
<td>15%</td>
</tr>
<tr>
<td>Duration</td>
<td>Active management of duration to manage the impact from expected rises or falls in government bond yields.</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: HSBC Global Asset Management as at 31 July 2013. *The information contained herein is provided for illustrative purposes only and does not constitute investment advice. Targets are estimates based on internal modeling and correlation matrices. Actual contributions may vary over time depending on the investment strategy. Any forecast, projection or target contained in this presentation is for information purposes only and is not guaranteed in any way. HSBC accepts no liability for any failure to meet such forecasts, projections or targets.
Our performance record

HGIF Global High Income Bond
(AC share class)

Source: HSBC Global Asset Management. Benchmark source: Rimes. Data as at 31 July 2013. Performance greater than one year is annualized. Returns are based on USD currency, NAV per unit basis, net of fees with reinvestment of dividends and income. Performance for other share classes will vary. Inception date: 28 July 2010. Short-term performance should not be the sole factor in an investment decision. Short-term returns are not indicative of the strategy’s long-term performance potential. Annual Management Charge is 1.25%. Past performance does not guarantee future results. The performance data quoted represents past performance and current returns may be lower or higher. The investment return and principal value will fluctuate so that an investor’s shares, when redeemed may be worth more or less than the original cost. Performance for other share classes will vary.

HGIF Global High Yield Bond
(AMUSD share class)

Source: HSBC Global Asset Management. Benchmark source: Rimes. Data as at 31 July 2013. Performance greater than one year is annualized. Returns are based on USD currency, NAV per unit basis, net of fees with reinvestment of dividends and income. Performance for other share classes will vary. Inception date: 25 July 2012. Short-term performance should not be the sole factor in an investment decision. Short-term returns are not indicative of the strategy’s long-term performance potential. Annual Management Charge is 1.10%. Past performance does not guarantee future results. The performance data quoted represents past performance and current returns may be lower or higher. The investment return and principal value will fluctuate so that an investor’s shares, when redeemed may be worth more or less than the original cost. Performance for other share classes will vary.

HGIF Global Short Duration High Yield Bond (AC share class)

Please note chart is not included as it history performance is too short given the inception date was 12 June 2013.

Net performance

<table>
<thead>
<tr>
<th></th>
<th>1 year</th>
<th>3 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund</td>
<td>5.8</td>
<td>23.8</td>
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</tbody>
</table>

Global High Income Bond

Source: Morningstar, Retail Accumulation, gross income reinvested. Performance information is up to 31/07/2013. Morningstar Sector used OE USD Flexible Bond. Please note quartile rank is a term widely used in financial services to denote performance of a fund within its sector. For example a ranking of 1 denotes a Fund in the top 25% of its peer group sector, with a ranking of 4 denoting a fund in the bottom 25% of its peer group sector. Total return, sector median performance and ranks - Data Source - © Copyright 2013 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

Three-year Rating

The Morningstar Rating for investments, commonly called the “star rating,” is a measure of an investment’s risk-adjusted return, relative to similar investments over three years. Investments are rated from one to five stars, with the best performers receiving five stars and the worst performers receiving one star. Ratings are objective, based entirely on a mathematical evaluation of past performance and should not be considered as buy or sell recommendations.

Net performance

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<th></th>
<th>1 year</th>
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<tbody>
<tr>
<td>Fund</td>
<td>8.1</td>
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Source: Morningstar, Retail Accumulation, gross income reinvested. Performance information is up to 31/07/2013. Morningstar Sector used OE Global High Yield Bond. Please note quartile rank is a term widely used in financial services to denote performance of a fund within its sector. For example a ranking of 1 denotes a Fund in the top 25% of its peer group sector, with a ranking of 4 denoting a fund in the bottom 25% of its peer group sector. Total return, sector median performance and ranks - Data Source - © Copyright 2013 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

Net performance

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<tr>
<td>Fund</td>
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Source: Morningstar, Retail Accumulation, gross income reinvested. Performance information is up to 31/07/2013. Morningstar Sector used OE Global High Yield Bond. Please note quartile rank is a term widely used in financial services to denote performance of a fund within its sector. For example a ranking of 1 denotes a Fund in the top 25% of its peer group sector, with a ranking of 4 denoting a fund in the bottom 25% of its peer group sector. Total return, sector median performance and ranks - Data Source - © Copyright 2013 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

Net performance

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<th>1 year</th>
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<tbody>
<tr>
<td>Fund</td>
<td>3</td>
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</tbody>
</table>

Source: Morningstar, Retail Accumulation, gross income reinvested. Performance information is up to 31/07/2013. Morningstar Sector used OE Global High Yield Bond. Please note quartile rank is a term widely used in financial services to denote performance of a fund within its sector. For example a ranking of 1 denotes a Fund in the top 25% of its peer group sector, with a ranking of 4 denoting a fund in the bottom 25% of its peer group sector. Total return, sector median performance and ranks - Data Source - © Copyright 2013 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.
Our team

Our global credit resources are highly experienced – with an average of 15 years’ experience. These teams have also been stable with low turnover in the last three years. These facts are important: most of our team members have been through several market cycles and crises together – this is important in times of high volatility and uncertainty.

We also have a firm belief that being good at credit management requires significant resources dedicated to credit research. Since 2002, our credit analyst teams have been structured by sector and region. Being geographically close to the companies we invest in allows us to have a deep understanding of how local companies operate, as well as develop insights from local practices, trends and culture.

Credit analyst teams’ main locations

Credit analysts by sector coverage

<table>
<thead>
<tr>
<th>Industrials, Auto &amp; Transportation</th>
<th>Telecom, Media &amp; Technology</th>
<th>Financials &amp; Covered</th>
<th>Consumer, Retail &amp; Healthcare</th>
<th>Utilities</th>
<th>Real Estate &amp; REITS</th>
<th>Asset Backed Securities</th>
</tr>
</thead>
<tbody>
<tr>
<td>19</td>
<td>8</td>
<td>13</td>
<td>11</td>
<td>11</td>
<td>4</td>
<td>4</td>
</tr>
</tbody>
</table>

Source: HSBC Global Asset Management as at 30 June 2013.

Today the credit research platform comprises over 35 sector specialists based around the world in developed and emerging markets. They cover almost the entire credit universe, detecting investment opportunities on investment grade, cross-over and high yield names.

The depth of resources that we allocate to credit research is one of the largest and most experienced networks of credit research talent in the investment industry. Their talent enables them to discover opportunities in their areas of expertise, which we combine with the aim of delivering excellent risk-adjusted returns.
Why choose HSBC Global Asset Management?

**Investment Capabilities**
We believe in connecting clients with opportunities by providing solutions which aim to deliver on our clients’ objectives.

Our investment capabilities span all the main asset classes – equities, fixed income, multi-asset and liquidity. We believe that HSBC Global Asset Management is well placed to provide a globally-consistent and disciplined investment process across these capabilities which draw on the local knowledge and expertise of our team of over 500 investment professionals in more than 20 countries around the world.* We fully connect all our local investment teams to the global investment platform for each of our major capabilities.

**Investment Philosophy**
All our investment teams share a common philosophy. Our core investment belief is that good governance – clear investment beliefs and well-executed process – is the key to delivering long-term value to our customers. We recognise that best-practice investment governance is essential to deliver on our fiduciary responsibilities and to meet the objectives of our clients. Our clear and consistent investment beliefs are appropriately and consistently applied via a disciplined, long-term approach.

Our collaborative, global processes are complemented by a focus on priority capabilities and geographies, alongside governance infrastructure and management information. We have developed and maintain robust investment processes and capabilities that are delivered within appropriate control and decision-making frameworks.

When considering your client’s allocation into global credit we believe two overarching factors differentiate us: our resources and our established capability.

**Our resources**
When it comes to credit analysis in particular, size matters. We have the depth of resources to provide global coverage through insights into the local economies, markets and companies; this unquestionably adds value to the service we provide our clients.

In addition, clients may be reassured by the financial underpinning we have from being part of one of the world’s largest banking groups.

Visit us to find out more:
http://www.assetmanagement.hsbc.com/uk/advisers

*Source: HSBC Global Asset Management as at 30 June 2013.*
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