



# **ABF Hong Kong Bond Index Fund**

## **Interim Report 2017**

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# Investment Adviser's Report

## Market review

The Trust continues to hold high-quality issues such as bonds issued by the Hong Kong SAR Government and quasi-government entities in Hong Kong. This reflects the characteristics of the Trust of being a conservative investment which aims to achieve investment return and distribute potential income. The Trust followed the direction of the market and posted a negative return for the reporting period. Both US treasury yields and Hong Kong sovereign yields broadly increased during the period. After reaching its 5-year lows in July, the 10-year US treasury yield increased subsequently with improved macroeconomic data and concerns over the limits of global monetary policies. Treasury yield curve bear-steepened amid heightened reflation expectations post the US election. In mid-December, the US Federal Reserve (Fed), as widely expected, delivered another rate hike after a year of waiting. Subsequently on 15 December, the Hong Kong Monetary Authority (HKMA) announced that the Base Rate was adjusted upwards by 25 bp to 1.00%. During the reporting period, the Hong Kong sovereign yields largely tracked the movement in US treasury yields and ended higher across the curve. Going forward, we expect the Hong Kong dollar bond curve to remain correlated with the US interest rates and hence, expect the Hong Kong dollar bond yields to follow similar movements in US treasury yields. Amid the reflationary expectations post-US election, the US treasuries are now trading in a higher range than last year in terms of yields. While we expect US treasury yields to trade in a range over the medium term, we also expect the markets to remain sensitive to the development in the US and Europe.

**HSBC Global Asset Management (Hong Kong) Limited**

31 January 2017

# Statement of Financial Position

## ABF Hong Kong Bond Index Fund

	31 January 2017 HKD	31 July 2016 HKD
<b>ASSETS</b>		
Investments	3,222,534,945	4,081,262,685
Accounts receivable	35,678,712	429,645,256
Cash at banks	36,896,363	5,188,115
<b>Total assets</b>	3,295,110,020	4,516,096,056
<b>LIABILITIES</b>		
Accounts payable	35,091,438	389,294,393
Distribution payable	18,921,721	30,090,721
<b>Total liabilities</b>	54,013,159	419,385,114
<b>TOTAL NET ASSETS</b>	3,241,096,861	4,096,710,942
<b>EQUITY</b>		
Capital attributable to unitholders	3,241,096,861	4,096,710,942
<b>TOTAL EQUITY</b>	3,241,096,861	4,096,710,942
<b>Number of units outstanding</b>	33,196,001	40,446,001
<b>Net asset value per unit</b>	97.64	101.29

# Portfolio Statement

## ABF Hong Kong Bond Index Fund

as at 31 January 2017

	Holdings	Market value HKD	% of net asset value		Holdings	Market value HKD	% of net asset value
<b>Debt securities</b>							
				HONG KONG (GOVT OF) 2.16%			
				9DEC2019	53,000,000	54,381,811	1.68
<b>Listed investments</b>				HONG KONG (GOVT OF) 2.22%			
				7AUG2024	121,000,000	124,868,297	3.85
HK GOVERNMENT BOND 0.79%				HONG KONG (GOVT OF) 2.24%			
18JUN2018	10,000,000	9,981,554	0.31	27AUG2029	47,000,000	48,548,923	1.50
HK GOVERNMENT BOND 2.39%				HONG KONG (GOVT OF) 2.48%			
20AUG2025	25,600,000	26,864,584	0.83	28FEB2029	53,000,000	56,131,023	1.73
HK GOVERNMENT BOND 3.27%				HONG KONG (GOVT OF) 2.53%			
28AUG2023	24,200,000	26,636,669	0.82	22JUN2020	20,000,000	20,806,178	0.64
HK GOVT BOND PROGRAMME 0.61%				HONG KONG (GOVT OF) 2.6%			
5FEB2018	201,050,000	200,567,058	6.19	20AUG2024	26,000,000	27,637,238	0.85
HONG KONG (GOVT OF) 0.8%				HONG KONG (GOVT OF) 2.93%			
27AUG2027	18,500,000	16,583,962	0.51	13JAN2020	180,500,000	189,266,524	5.84
HONG KONG (GOVT OF) 0.83%				HONG KONG (GOVT OF) 2.95%			
6NOV2017	7,000,000	6,994,890	0.22	24FEB2025	25,700,000	28,040,126	0.87
HONG KONG (GOVT OF) 0.91%				HONG KONG (GOVT OF) 3.32%			
5NOV2020	157,050,000	154,475,809	4.77	25FEB2026	30,000,000	33,801,552	1.04
HONG KONG (GOVT OF) 1.32%				HONG KONG (GOVT OF) 5.125%			
23DEC2019	33,000,000	33,080,517	1.02	23JUL2019	12,500,000	13,592,500	0.42
HONG KONG (GOVT OF) 1.34%				HONG KONG (GOVT) 0.97%			
24JUN2019	12,200,000	12,259,420	0.38	20JUN2022	26,450,000	25,648,851	0.79
HONG KONG (GOVT OF) 1.35%				HONG KONG (GOVT) 05Y1812 1.17%			
25MAR2019	22,450,000	22,576,899	0.70	19DEC2018	23,000,000	23,060,246	0.71
HONG KONG (GOVT OF) 1.47%				HONG KONG (GOVT) 1.06% 5FEB2020	191,800,000	190,685,009	5.88
20FEB2019	355,100,000	358,016,791	11.05	HONG KONG (GOVT) 1.1% 17JAN2023	137,400,000	133,513,188	4.12
HONG KONG (GOVT OF) 1.49%				HONG KONG (GOVT) 1.19% 6DEC2021	25,850,000	25,465,205	0.79
22FEB2028	30,000,000	28,779,780	0.89	HONG KONG (GOVT) 1.49% 30SEP2019	27,600,000	27,817,971	0.86
HONG KONG (GOVT OF) 1.61%				HONG KONG (GOVT) 1.51% 24FEB2027	20,000,000	19,340,562	0.60
10DEC2018	19,700,000	19,911,592	0.61	HONG KONG (GOVT) 1.84% 9DEC2024	21,000,000	21,179,726	0.65
HONG KONG (GOVT OF) 1.68%				HONG KONG (GOVT) 10GB2108 2.46%			
21JAN2026	77,950,000	76,899,250	2.37	4AUG2021	153,500,000	160,153,672	4.94
HONG KONG (GOVT OF) 1.73%				HONG KONG (GOVT) 10Y1806 3.56%			
20FEB2024	34,000,000	34,108,929	1.05	25JUN2018	25,000,000	25,909,958	0.80
HONG KONG (GOVT OF) 1.96%				HONG KONG (GOVT) 10Y2106 2.31%			
3JUN2024	21,500,000	21,889,453	0.68	21JUN2021	1,150,000	1,192,080	0.04
HONG KONG (GOVT OF) 10Y1906				HONG KONG (GOVT) 15Y2608 2.07%			
2.64% 10JUN19	21,100,000	21,839,791	0.67	26AUG2026	18,500,000	18,877,827	0.58
HONG KONG (GOVT OF) 2.13%				HONG KONG GOVERNMENT 0.53%			
16JUL2030	87,000,000	88,653,017	2.74	19MAR2018	35,000,000	34,865,274	1.08

# Portfolio Statement

## ABF Hong Kong Bond Index Fund

as at 31 January 2017

	Holdings	Market value HKD	% of net asset value
HONG KONG GOVERNMENT 0.55%			
21NOV2018	750,000	743,811	0.02
HONG KONG GOVERNMENT 0.67%			
21MAY2018	17,650,000	17,595,403	0.54
HONG KONG GOVERNMENT 0.93%			
19FEB2018	27,700,000	27,720,684	0.86
HONG KONG GOVERNMENT 1.52%			
25SEP2018	35,000,000	35,307,342	1.09
HONG KONG GOVERNMENT 2.49%			
22AUG2028	21,000,000	22,248,345	0.69
HONG KONG MORTGAGE CORP 1.335% 15JUN2018	106,500,000	106,180,500	3.28
HONG KONG MTG CO 4.47%			
18JUL2018	1,000,000	1,041,600	0.03
HONG KONG MTG CORP 1.45%			
12JAN2018	3,000,000	3,000,225	0.09
		<u>2,678,741,616</u>	<u>82.67</u>

### Unlisted but quoted investments

CHINA DEV BK CORP/HK 2.95% CD			
20MAR2017	5,000,000	5,012,000	0.15
CORP ANDINA DE FOMENTO 1.81%			
2AUG2021	120,000,000	113,264,844	3.49
EXPORT-IMPORT BANK KOREA 1.5%			
2AUG2019	110,000,000	107,811,000	3.33
EXPORT-IMPORT BANK OF MALAYSIA 2.95% 12MAR2023	61,000,000	57,852,400	1.78
KOREA DEVELOPMENT BANK 3.2%			
3OCT2021	11,000,000	11,073,755	0.34
KOREA GAS CORP 2.6% 20JUN2017	1,500,000	1,505,250	0.05
KOREA LAND & HOUSING CORP 4.2%			
18JAN2022	20,000,000	21,006,000	0.65
KOREA NATIONAL OIL CORP 1.8%			
22JAN2018	32,000,000	31,923,200	0.98
MTR CORP (C.I.) 4.28% 6JUL2020			
EMTN	7,500,000	7,998,000	0.25
MTR CORP (C.I.) 4.75% 11MAY2020	89,000,000	96,050,580	2.96
MTR CORP (C.I.) 4.9% 25JUN2018	7,000,000	7,315,000	0.23

	Holdings	Market value HKD	% of net asset value
MTR CORP (C.I.) LTD 2.25%			
12OCT2022	30,000,000	29,179,650	0.90
URBAN RENEWAL AUTHORITY 1.5%			
13JUL2017	4,000,000	4,006,400	0.12
URBAN RENEWAL AUTHORITY 1.64%			
11MAY2020	2,000,000	1,967,800	0.06
URBAN RENEWAL AUTHORITY 1.65%			
17JAN2020	3,000,000	2,963,850	0.09
URBAN RENEWAL AUTHORITY 1.75%			
2AUG2019	16,000,000	15,937,600	0.49
URBAN RENEWAL AUTHORITY 2.15%			
10MAY2023	30,000,000	28,926,000	0.89
		<u>543,793,329</u>	<u>16.76</u>
<b>Total Investments</b>		3,222,534,945	99.43
<b>Other Net Assets</b>		<u>18,561,916</u>	<u>0.57</u>
<b>Total Net Assets</b>		<u>3,241,096,861</u>	<u>100.00</u>
<b>Total Cost of Investment</b>		<u>3,289,515,273</u>	

# Statement of Movements in Portfolio Holdings

## ABF Hong Kong Bond Index Fund

	<b>% of net asset value 31 January 2017</b>	<b>% of net asset value 31 July 2016</b>
<b>Debt securities</b>		
Listed investments	82.67	93.94
Unlisted but quoted investments	16.76	5.68
<b>Debt securities (Total)</b>	<hr/> 99.43	<hr/> 99.62
<b>Total investments</b>	99.43	99.62
<b>Other net assets</b>	<hr/> 0.57	<hr/> 0.38
<b>Total net assets</b>	<hr/> 100.00	<hr/> 100.00

# Performance Record

## ABF Hong Kong Bond Index Fund

	Net asset value per unit		
	Lowest HKD	Highest HKD	
1 August 2016 to 31 January 2017	97.28	101.52	
2016	98.44	102.30	
2015	98.64	101.48	
2014	98.08	100.42	
2013	98.92	104.92	
2012	102.13	105.54	
2011	99.53	103.72	
2010	101.39	104.67	
2009	99.69	108.45	
2008	96.32	105.99	
2007	96.10	100.69	
	31 January 2017 HKD	31 July 2016 HKD	31 July 2015 HKD
Total net asset value	3,241,096,861	4,096,710,942	2,993,449,549
Net asset value per unit	97.64	101.29	99.13

In accordance with chapter 8.6(l) of the Code on Unit Trusts and Mutual Funds, the Trustee is required to provide a comparison of the Trust performance and the actual index performance over the relevant period.

	6 months ended 31 January 2017	12 months ended 31 July 2016
ABF Hong Kong Bond Index Fund	-3.06% <sup>(a)</sup>	3.87% <sup>(a)</sup>
Markit iBoxx ABF Hong Kong Index	-2.85% <sup>(b)</sup>	4.01% <sup>(b)</sup>

- (a) Performance is calculated in base currency with Unit-price to Unit price, dividend (if any) reinvested.
- (b) The benchmark returns are stated on a total return basis. Unlike the Trust, the benchmark returns do not include the impact of trust expenses or trust transaction costs.
- (c) The Trust performance and the actual index performance are being calculated up to the last business day of the relevant periods.

Investor should note that investment involves risk and past performance may not be indicative of future performance. Investors should refer to the Trust's Prospectus before making any investment decision.



# Distribution Disclosure

## ABF Hong Kong Bond Index Fund

	<b>Date of Ex-distribution</b>	<b>Date of Payment</b>	<b>Distribution Per Unit HKD</b>	<b>Total Distribution HKD</b>
2017 Interim Distribution	25 January 2017	9 February 2017	0.57	18,921,721
2016 Final Distribution	28 July 2016	9 August 2016	0.82	30,090,721
2016 Interim Distribution	28 January 2016	11 February 2016	0.84	24,104,641

# Underlying Index Constituent Stocks Disclosure

## **As at 31 January 2017**

The underlying index of ABF Hong Kong Bond Index Fund namely Markit iBoxx ABF Hong Kong Index, did not have any constituent stock that accounted for more than 10% of the index as at 31 January 2017.

During the period from 1 August 2016 to 31 January 2017, the Markit iBoxx ABF Hong Kong Index decreased by 3.20% while the net asset value per unit of the ABF Hong Kong Bond Index (dividends reinvested) decreased by 4.19%.

# Administration

## **Manager and listing agent**

HSBC Investment Funds (Hong Kong) Limited  
HSBC Main Building  
1 Queen's Road Central  
Hong Kong

## **Directors of the Manager**

Stuart Glenn BERRY  
Pedro Augusto BOTELHO BASTOS  
Guillermo Eduardo MALDONADO-CODINA  
Chun Pong Stephen TAM  
Ka Yin Joanne LAU

## **Members of supervisory committee**

Stephen Y L CHEUNG  
Gillian HUI  
Andrew MALCOLM  
Anthony YUEN

## **Investment adviser**

HSBC Global Asset Management (Hong Kong) Limited  
HSBC Main Building  
1 Queen's Road Central  
Hong Kong

## **Trustee, custodian, administrator, receiving agent and registrar**

HSBC Institutional Trust Services (Asia) Limited  
HSBC Main Building  
1 Queen's Road Central  
Hong Kong

## **Processing agent**

HK Conversion Agency Services Limited  
2/F Vicwood Plaza  
199 Des Voeux Road Central  
Hong Kong

## **Legal adviser**

Clifford Chance  
29th Floor, Jardine House  
One Connaught Place Central  
Hong Kong

## **Auditor**

KPMG  
8th Floor, Prince's Building  
10 Chater Road Central  
Hong Kong

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