

ABF Hong Kong Bond Index Fund

Interim Report 2019



HSBC
Global Asset
Management

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Investment Adviser's Report

Market review

The fund continues to hold high-quality issues such as bonds issued by the Hong Kong SAR Government and solid quasi-government and supranational entities. This reflects the characteristics of the portfolio, which aims to achieve investment return and distribute potential income while taking limited risk. The fund followed the direction of the market and delivered returns in positive territories for the reporting period. Both US treasury and Hong Kong sovereign curves shifted downward and steepened over the past six months. US treasury yields initially creped upward on the back of robust US corporate earnings, fuelled by both share buybacks and fiscal stimulus. However, they reversed course quickly towards the end of the year when concerns over fading momentum in the US, global growth slowdown and prolonged US-China trade tensions loomed larger. Against this backdrop, the Fed shifted towards a more dovish tone and market expectation on future rate hike plunged, pushing the short-end yields lower. In the meantime, the Fed also signaled flexibility on the reduction on its balance sheet. Moreover, inflation expectation declined as global trade and PMI data came in disappointing, and oil prices saw large correction from October to December. All in all, these factors have driven long yields lower. During the reporting period, the Hong Kong sovereign yields largely tracked the movement in US treasury yields and ended the period lower 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. We believe that US treasuries will trade range-bounded as investors watch out for further data prints and development from US-China trade negotiation.

HSBC Global Asset Management (Hong Kong) Limited

31 January 2019

Statement of Financial Position

ABF Hong Kong Bond Index Fund

	31 January 2019 HKD	31 July 2018 HKD
ASSETS		
Investments	2,642,131,545	2,753,382,462
Accounts receivable	128,477,128	65,018,090
Cash at banks	8,903,813	6,625,788
Total assets	2,779,512,486	2,825,026,340
LIABILITIES		
Accounts payable	94,832,500	38,649,347
Distribution payable	24,476,401	17,247,601
Total liabilities	119,308,901	55,896,948
TOTAL NET ASSETS	2,660,203,585	2,769,129,392
EQUITY		
Capital attributable to unitholders	2,660,203,585	2,769,129,392
TOTAL EQUITY	2,660,203,585	2,769,129,392
Number of units outstanding	27,196,001	28,746,001
Net asset value per unit	97.82	96.33

Portfolio Statement

ABF Hong Kong Bond Index Fund

as at 31 January 2019

	Holdings	Market value HKD	% of net asset value		Holdings	Market value HKD	% of net asset value
Debt securities				HONG KONG (GOVT OF) 2.6%			
				20AUG2024	26,000,000	27,302,220	1.03
Listed investments				HONG KONG (GOVT OF) 2.71%			
				20FEB2023	15,000,000	15,650,757	0.59
HK GOVERNMENT BOND 2.39%				HONG KONG (GOVT OF) 2.93%			
20AUG2025	25,600,000	26,710,380	1.00	13JAN2020	70,500,000	71,485,216	2.69
HK GOVT BOND PROGRAMME 1.25%				HONG KONG (GOVT OF) 2.95%			
29JUN2027	94,500,000	90,290,743	3.39	24FEB2025	25,700,000	27,585,159	1.04
HK GOVT BOND PROGRAMME 1.89%				HONG KONG (GOVT OF) 3.32%			
02MAR2032	82,500,000	81,701,903	3.07	25FEB2026	17,000,000	18,820,163	0.71
HK GOVT BOND PROGRAMME 1.97%				HONG KONG (GOVT OF) 4.65%			
17JAN2029	48,000,000	48,183,840	1.81	29AUG2022	15,000,000	16,587,406	0.62
HK GOVT BOND PROGRAMME 2.13%				HONG KONG (GOVT) 0.55%			
16JUL2030	77,000,000	78,658,657	2.96	06DEC2022	15,000,000	14,419,085	0.54
HONG KONG (GOVT OF) 0.8%				HONG KONG (GOVT) 0.97%			
27AUG2027	15,600,000	14,424,028	0.54	20JUN2022	20,000,000	19,596,944	0.74
HONG KONG (GOVT OF) 0.91%				HONG KONG (GOVT) 1.06% 5FEB2020	201,100,000	200,298,275	7.53
5NOV2020	147,050,000	145,437,994	5.47	HONG KONG (GOVT) 1.1% 17JAN2023	228,400,000	223,710,400	8.41
HONG KONG (GOVT OF) 1.16%				HONG KONG (GOVT) 1.19% 06DEC2021	25,850,000	25,576,859	0.96
18MAY2022	98,600,000	97,165,646	3.65	HONG KONG (GOVT) 1.51% 24FEB2027	27,000,000	26,541,405	1.00
HONG KONG (GOVT OF) 1.32%				HONG KONG (GOVT) 10GB2108 2.46%			
23DEC2019	8,000,000	7,989,680	0.30	4AUG2021	93,500,000	95,496,047	3.59
HONG KONG (GOVT OF) 1.49%				HONG KONG GOVERNMENT BOND			
22FEB2028	20,000,000	19,540,472	0.73	1.31% 20FEB2020	16,000,000	15,976,883	0.60
HONG KONG (GOVT OF) 1.68%				HONG KONG GOVERNMENT BOND			
21JAN2026	92,950,000	92,379,120	3.47	1.94% 04DEC2023	40,000,000	40,584,784	1.52
HONG KONG (GOVT OF) 1.73%				HONG KONG GOVERNMENT BOND			
20FEB2024	19,000,000	19,090,372	0.72	2.49% 22AUG2028	21,000,000	22,303,245	0.84
HONG KONG (GOVT OF) 1.96%				HONG KONG GOVERNMENT BOND			
3JUN2024	22,800,000	23,167,755	0.87	3.27% 28AUG2023	4,200,000	4,504,715	0.17
HONG KONG (GOVT OF) 10Y2012				HONG KONG MORTGAGE CORP 1.92%			
2.44% 07DEC2020	40,000,000	40,660,704	1.53	10MAY2022	5,000,000	4,956,000	0.19
HONG KONG (GOVT OF) 10Y2106				HONG KONG MORTGAGE CORP 2.05%			
2.31% 21JUN2021	36,000,000	36,631,710	1.38	15FEB2021	20,000,000	19,937,808	0.75
HONG KONG (GOVT OF) 15Y2608				HONG KONG MORTGAGE CORP 2.31%			
2.07% 26AUG2026	28,000,000	28,691,146	1.08	12APR2021	122,000,000	122,440,420	4.60
HONG KONG (GOVT OF) 2.22%				KOREA EXPRESSWAY CORP 1.65%			
07AUG2024	110,000,000	112,947,824	4.24	18OCT2019	75,000,000	74,557,500	2.80
HONG KONG (GOVT OF) 2.24%						2,151,152,182	80.86
27AUG2029	33,000,000	34,353,363	1.29				
HONG KONG (GOVT OF) 2.48%							
28FEB2029	18,000,000	19,152,000	0.72				
HONG KONG (GOVT OF) 2.53%							
22JUN2020	45,000,000	45,643,554	1.72				

Portfolio Statement

ABF Hong Kong Bond Index Fund

as at 31 January 2019

	Holdings	Market value HKD	% of net asset value
<i>Unlisted but quoted investments</i>			
CORP ANDINA DE FOMENTO 1.81% 02AUG2021	120,000,000	116,825,520	4.39
EXPORT-IMPORT BANK OF MALAYSIA 2.95% 12MAR2023	61,000,000	61,319,085	2.31
KOREA DEVELOPMENT BANK 3.2% 03OCT2021	11,000,000	11,119,747	0.42
KOREA LAND & HOUSING CORP 4.2% 18JAN2022	20,000,000	20,746,672	0.78
KOREA NATIONAL OIL 2.18% 29JAN2020	8,000,000	7,967,200	0.30
MTR CORP (C.I.) 4.28% 6JUL2020 EMTN	7,500,000	7,722,000	0.29
MTR CORP (C.I.) 4.75% 11MAY2020	89,000,000	91,892,500	3.45
MTR CORP (C.I.) LTD 2.25% 12OCT2022	30,000,000	29,925,000	1.13
MTR CORP CI LTD SER EMTN (BR) (REG S) 2.25% 28DEC2024	22,000,000	21,769,000	0.82
MTR CORP CI LTD SER EMTN (BR) (REG S) 2.46% 20SEP2032	60,000,000	56,870,286	2.14
URBAN RENEWAL AUTHORITY 1.64% 11MAY2020	2,000,000	1,988,200	0.07
URBAN RENEWAL AUTHORITY 1.65% 17JAN2020	3,000,000	2,988,753	0.11
URBAN RENEWAL AUTHORITY 1.75% 2AUG2019	14,000,000	13,990,200	0.53
URBAN RENEWAL AUTHORITY 2.15% 10MAY2023	30,000,000	29,652,000	1.11
URBAN RENEWAL AUTHORITY 2.92% 27JAN2021	16,000,000	16,203,200	0.61
		<u>490,979,363</u>	<u>18.46</u>
Total Investments		2,642,131,545	99.32
Other Net Assets		<u>18,072,040</u>	<u>0.68</u>
Total Net Assets		<u>2,660,203,585</u>	<u>100.00</u>
Total Cost of Investment		<u>2,683,219,251</u>	

Statement of Movements in Portfolio Holdings

ABF Hong Kong Bond Index Fund

	% of net asset value 31 January 2019	% of net asset value 31 July 2018
Debt securities		
Listed investments	80.86	82.78
Unlisted but quoted investments	18.46	16.65
Debt securities (Total)	99.32	99.43
Total investments	99.32	99.43
Other net assets	0.68	0.57
Total net assets	100.00	100.00

Performance Record

ABF Hong Kong Bond Index Fund

	Net asset value per unit		
	Lowest HKD	Highest HKD	
1 August 2018 to 31 January 2019	95.25	98.50	
2018	95.89	100.02	
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 2019 HKD	31 July 2018 HKD	31 July 2017 HKD
Total net asset value	2,660,203,585	2,769,129,392	2,723,883,520
Net asset value per unit	97.82	96.33	99.25

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

	6 months ended 31 January 2019	12 months ended 31 July 2018
ABF Hong Kong Bond Index Fund	2.48% ^(a)	(1.76)% ^(a)
Markit iBoxx ABF Hong Kong Index	2.60% ^(b)	(1.46)% ^(b)

- (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.

Investors 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

	Date of Ex-distribution	Date of Payment	Distribution Per Unit HKD	Total Distribution HKD
2019 Interim Distribution	30 January 2019	13 February 2019	0.90	24,476,401
2018 Final Distribution	30 July 2018	8 August 2018	0.60	17,247,601
2018 Interim Distribution	30 January 2018	8 February 2018	0.57	16,328,221

Underlying Index Constituent Stocks Disclosure

As at 31 January 2019

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 2019.

During the period from 1 August 2018 to 31 January 2019, the Markit iBoxx ABF Hong Kong Index increased by 2.56% while the net asset value per unit of the ABF Hong Kong Bond Index (dividends reinvested) increased by 1.50%.

Administration

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