

ABF Hong Kong Bond Index Fund

Interim Report 2020



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 Trust of being a conservative investment which aims to achieve investment return and distribute potential income. The fund followed the direction of the market and delivered returns in positive territories for the reporting period. US treasury yields completed the six-month lower as they started off lower in August when US-China trade tensions escalated, with the two countries announcing new tariffs on each other. Yields were then guided higher by heightened optimism over US-China trade negotiations as the two countries came to an agreement for a phase one deal and made concessions by halting and rolling back some tariffs. Meanwhile, economic data release from the US started off soft but turned more upbeat as we headed towards the year-end, with improvement seen in both manufacturing sector and labour market. Against such backdrop, the Fed carried out two mid-cycle rate cuts in September and October, but signalled patience before taking the next move. However, dominating market headlines later in January was the coronavirus outbreak in China that sparked heavy selloff in risk assets and commodities. At the end of the month, markets remained worried about the impact from a slowdown in production and trade activity in China would have on the global economy, leading to a sharp fall in bond yields. 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. Meanwhile, we believe the HKD sovereign curve would stay inverted in the near term. On the short-end, we expect it will continue to be closely linked to the city's money market rates, which will be susceptible to risk sentiment and overall money market liquidity. Meanwhile, the coronavirus outbreak in China would weigh on activity in Hong Kong from multiple aspects, dragging long-end yields lower. At the same time, demand for the long-end should stay solid given the ongoing demand from asset owners, such as insurers and lifers.

HSBC Global Asset Management (Hong Kong) Limited

31 January 2020

Statement of Financial Position

ABF Hong Kong Bond Index Fund

	31 January 2020 HKD	31 July 2019 HKD
ASSETS		
Investments	2,410,310,623	2,600,545,031
Interest receivable	17,517,843	17,812,746
Amounts due from brokers	41,919,946	22,967,424
Cash at banks	326,942	867,789
Total assets	2,470,075,354	2,642,192,990
LIABILITIES		
Accounts payable	24,806,600	–
Distribution payable	16,793,281	22,829,561
Other payables	613,074	836,557
Total liabilities	42,212,955	23,666,118
TOTAL NET ASSETS	2,427,862,399	2,618,526,872
EQUITY		
Capital attributable to unitholders	2,427,862,399	2,618,526,872
TOTAL EQUITY	2,427,862,399	2,618,526,872
Number of units outstanding	24,446,001	26,546,001
Net asset value per unit	99.32	98.64

Portfolio Statement

ABF Hong Kong Bond Index Fund

as at 31 January 2020

	Holdings	Market value HKD	% of net asset value		Holdings	Market value HKD	% of net asset value	
Debt securities					HONG KONG (GOVT OF) 2.71% 20FEB2023	15,000,000	15,572,962	0.64
Listed investments					HONG KONG (GOVT OF) 2.95% 24FEB2025	15,700,000	16,947,178	0.70
HK GOVERNMENT BOND 1.09% 05JUN2023	11,500,000	11,381,396	0.47		HONG KONG (GOVT OF) 4.65% 29AUG2022	15,000,000	16,198,437	0.67
HK GOVERNMENT BOND 2.39% 20AUG2025	15,600,000	16,489,623	0.68		HONG KONG (GOVT) 0.55% 06DEC2022	15,000,000	14,630,794	0.60
HK GOVT BOND PROGRAMME 1.25% 29JUN2027	98,300,000	97,685,861	4.02		HONG KONG (GOVT) 0.97% 20JUN2022	20,000,000	19,762,404	0.81
HK GOVT BOND PROGRAMME 1.89% 02MAR2032	47,500,000	49,955,037	2.06		HONG KONG (GOVT) 1.1% 17JAN2023	228,900,000	226,672,414	9.34
HK GOVT BOND PROGRAMME 1.97% 17JAN2029	125,000,000	131,070,075	5.40		HONG KONG (GOVT) 1.19% 06DEC2021	55,350,000	54,989,921	2.26
HK GOVT BOND PROGRAMME 2.13% 16JUL2030	41,100,000	43,966,647	1.81		HONG KONG (GOVT) 1.51% 24FEB2027	17,000,000	17,215,917	0.71
HONG KONG (GOVT OF) 0.8% 27AUG2027	15,600,000	15,009,960	0.62		HONG KONG (GOVT) 10GB2108 2.46% 4AUG2021	163,500,000	165,495,632	6.82
HONG KONG (GOVT OF) 1.16% 18MAY2022	169,100,000	167,760,035	6.91		HONG KONG GOVERNMENT BOND 1.94% 04DEC2023	15,300,000	15,617,740	0.64
HONG KONG (GOVT OF) 1.49% 22FEB2028	17,000,000	17,202,331	0.71		HONG KONG GOVERNMENT BOND 2.49% 22AUG2028	21,000,000	22,948,250	0.95
HONG KONG (GOVT OF) 1.68% 21JAN2026	92,700,000	94,526,978	3.89		HONG KONG GOVERNMENT BOND 3.27% 28AUG2023	17,150,000	18,263,189	0.75
HONG KONG (GOVT OF) 1.73% 20FEB2024	24,100,000	24,439,979	1.01			<u>1,803,693,450</u>	<u>74.29</u>	
HONG KONG (GOVT OF) 1.96% 3JUN2024	46,850,000	48,037,666	1.98					
HONG KONG (GOVT OF) 10Y2012 2.44% 07DEC2020	31,000,000	31,145,700	1.28					
HONG KONG (GOVT OF) 10Y2106 2.31% 21JUN2021	36,000,000	36,320,796	1.50					
HONG KONG (GOVT OF) 15Y2608 2.07% 26AUG2026	23,000,000	24,080,710	0.99					
HONG KONG (GOVT OF) 2.02% 07MAR2034	44,800,000	48,084,906	1.98					
HONG KONG (GOVT OF) 2.22% 07AUG2024	246,400,000	255,756,301	10.53					
HONG KONG (GOVT OF) 2.24% 27AUG2029	15,000,000	16,191,766	0.67					
HONG KONG (GOVT OF) 2.48% 28FEB2029	2,500,000	2,741,869	0.11					
HONG KONG (GOVT OF) 2.6% 20AUG2024	64,000,000	67,530,976	2.78					

Portfolio Statement

ABF Hong Kong Bond Index Fund

as at 31 January 2020

	Holdings	Market value HKD	% of net asset value
<i>Unlisted but quoted investments</i>			
CORP ANDINA DE FOMENTO 1.81% 02AUG2021	120,000,000	118,466,400	4.88
EXPORTIMPORT BANK OF CHINA 3.13% 22MAR2023	15,000,000	15,306,481	0.63
EXPORTIMPORT BANK OF MALAYSIA 2.95% 12MAR2023	61,000,000	61,996,319	2.55
HONG KONG MORTGAGE CORP 1.92% 10MAY2022	5,000,000	4,989,250	0.21
HONG KONG MORTGAGE CORP 2.05% 15FEB2021	20,000,000	19,975,592	0.82
HONG KONG MORTGAGE CORP 2.31% 12APR2021	102,000,000	102,234,600	4.21
HONG KONG MORTGAGE CORP 3.15% 19MAR2049	30,000,000	30,267,000	1.25
KOREA DEVELOPMENT BANK 3.2% 03OCT2021	11,000,000	11,143,601	0.46
KOREA LAND & HOUSING CORP 4.2% 18JAN2022	20,000,000	20,626,704	0.85
MTR CORP (C.I.) 4.75% 11MAY2020	89,000,000	89,551,800	3.69
MTR CORP CI LTD SER EMTN (BR) (REG S) 2.25% 28DEC2024	22,000,000	22,319,000	0.92
MTR CORP CI LTD SER EMTN (BR) (REG S) 2.46% 20SEP2032	60,000,000	61,503,426	2.53
URBAN RENEWAL AUTHORITY 1.64% 11MAY2020	2,000,000	1,996,000	0.08
URBAN RENEWAL AUTHORITY 2.15% 10MAY2023	30,000,000	30,129,000	1.24
URBAN RENEWAL AUTHORITY 2.92% 27JAN2021	16,000,000	16,112,000	0.67
		<u>606,617,173</u>	<u>24.99</u>
Total Investments		2,410,310,623	99.28
Other Net Assets		<u>17,551,776</u>	<u>0.72</u>
Total Net Assets		<u>2,427,862,399</u>	<u>100.00</u>
Total Cost of Investment		<u>2,407,946,372</u>	

Statement of Movements in Portfolio Holdings

ABF Hong Kong Bond Index Fund

	% of net asset value 31 January 2020	% of net asset value 31 July 2019
Debt securities		
Listed investments	74.29	76.41
Unlisted but quoted investments	24.99	22.90
Debt securities (Total)	<hr/> 99.28	<hr/> 99.31
Total investments	99.28	99.31
Other net assets	<hr/> 0.72	<hr/> 0.69
Total net assets	<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 2019 to 31 January 2020	98.42	100.30	
2019	95.25	99.98	
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 2020 HKD	31 July 2019 HKD	31 July 2018 HKD
Total net asset value	2,427,862,399	2,618,526,872	2,769,129,392
Net asset value per unit	99.32	98.64	96.33

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 2020	12 months ended 31 July 2019
ABF Hong Kong Bond Index Fund	1.37%	(4.24)% ^(a)
Markit iBoxx ABF Hong Kong Index	1.54%	(4.59)% ^(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
2020 Interim Distribution	30 January 2020	13 February 2020	0.68	16,793,281
2019 Final Distribution	30 July 2019	8 August 2019	0.86	22,829,561
2019 Interim Distribution	30 January 2019	13 February 2019	0.90	24,476,401

Underlying Index Constituent Stocks Disclosure

As at 31 January 2020

The underline 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 2020.

During the period from 1 August 2019 to 31 January 2020, the Markit iBoxx ABF Hong Kong Index increased by 1.54% while the net asset value per unit of the ABF Hong Kong Bond Index (dividends reinvested) increased by 1.37%.

Administration

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