

# HSBC SELECT FLEXIBLE French mutual fund

## Interim report at 28 June 2019

*(routine publication not reviewed by the registered auditor)*

UCITS DO NOT HAVE A GUARANTEED RETURN AND PREVIOUS PERFORMANCE DOES NOT GUARANTEE FUTURE RETURNS



**HSBC**  
Global Asset  
Management

# HSBC SELECT FLEXIBLE MUTUAL FUND

## Information about the UCITS

### Asset management company

HSBC Global Asset Management (France)

### Custodian and Depository:

Caceis Bank

### Appointed accounting manager:

CACEIS Fund Administration

### Auditor

Ernst & Young et al.

### Legal form:

Mutual fund (FCP) governed by French law

### Management objective

The objective of the mutual fund is to offer flexible management on equity and interest rate markets over a minimum 5 year investment horizon. For information purposes, 20-80% of assets are exposed to equity markets, and 0-80% of assets are exposed to interest rate markets. The mutual fund invests in developed markets via the euro, as well as emerging markets.

### Benchmark

This mutual fund does not have a benchmark. Hence, we believe there is no representative benchmark for our investment management process or our investment universe.

### Investment strategy

#### 1. Strategies:

The investment strategy is discretionary and relies on a portfolio management process organised around 3 pillars:

- a strategic allocation of long-term assets, based upon both the certitude that the mutual fund manager has about the various asset classes, geographic area, and management style, as well as the HSBC Group advisory teams in building and optimising portfolios.

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This allocation is set within minimum and maximum exposure constraints by potentially attainable asset classes according to certain market configurations.

- a tactical short-term allocation illustrating the certitude managers have about different asset classes, with particular benefit from market inefficiencies and opportunities. It provides reactivity and flexibility to strategic allocation, thus optimising global portfolio exposure.
- a selection of investment vehicles most likely to offer the best exposure sought, in our opinion. The mutual fund manager relies principally upon HSBC Group expertise, as well as active mutual fund management and index and/or tracker investment funds. In context of the selection of securities and pursuant to management forecasting, eurozone instruments may be favoured.

The mutual fund invests up to a minimum of 70% of its assets in units and equities of French and/or European UCTIS, which are exposed to interest rate products or equities.

The mutual fund may also invest up to 30% of its assets in units or equities in French retail investment funds (RIFs) and European hedge funds which meet the 4 AMF General Regulation criteria.

The net assets of the mutual fund shall then be 20-80% exposed to equity markets, and 0-80% exposed to interest rate markets.

## **2. Assets (excluding embedded derivatives):**

### Equities:

None.

### Debt securities and money market instruments:

While not authorised to do so directly, the mutual fund may invest up to 10% of the net assets in debt securities or bonds under the same rating conditions as those stipulated in the "interest rate product investment fund" compartment.

### Other investment fund units or equities:

The mutual fund invests all of its assets in units or equities of French or European UCITS, and up to 30% of its assets in French RIFs or European hedge funds.

The investment funds selected are principally managed by the HSBC Group.

The mutual fund may invest between 20-80% of its assets in units or shares exposed to equities of corporations which are capitalised in any proportion (including small and medium with no predetermined limit), sector, and geographic area (including emerging markets with no predetermined limit).

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The mutual fund may invest up to 80% of its assets in units or shares of interest rate product investment funds, divided among European and international government bonds, investment grade (within minimum Standard & Poor's BBB- and Moody's Baa3 ratings or the equivalent as deemed by the management company) as well as high-yield European and international corporate bonds (riskier securities due to their low ratings), and European and international convertible bonds.

The management company does not exclusively or automatically use ratings provided by credit rating agencies and favours its own credit risk analysis to assess the credit quality of assets and in the selection of securities to purchase or sell.

Investments in high-yield bonds are limited to a maximum of 30% of assets of the mutual fund, while unlimited investment in emerging market debt is authorised.

The mutual fund may invest in units or shares of diversified and/or flexible investment funds, particularly those with absolute return strategies, which is defined as management decoupled from traditional markets.

The mutual fund may also invest with no predetermined limits in index and/or tracker investment funds to augment equity or rate exposure, or diversify the portfolio within other asset classes (real estate, etc.), geographic areas, or management styles.

The manager may invest in investment funds managed by an entity of the HSBC Group.

## Allocation constraints

The strategic allocation benchmark determines the allocation of medium/long-term investments by asset classes:

Types of investment funds	Minimum allocation	Maximum allocation
Equities	20%	80%
Rates (bonds and monetary)	0%	80%
Diversified and/or flexible	0%	20%

### **3. Forward financial instruments:**

The mutual fund may carry out transactions involving financial futures traded on French and foreign regulated or OTC markets.

In seeking to achieve the management objective, financial futures are used to hedge and/or expose the mutual fund to interest rate and equity risk as well as forex risk.

For exposure purposes, strictly to achieve the management objective, the mutual fund may use:

- options, and interest rate futures and swaps in context of portfolio exposure to interest rate fluctuations;
- equity index options and futures in context of portfolio exposure to equity risk;

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- currency forwards in context of portfolio exposure to forex risk other than the euro.

For hedging, the mutual fund may use:

- options, and interest rate futures and swaps to hedge interest rate risk;
- equity index options and futures, to hedge equity risk;
- currency options, swaps and futures, to hedge forex risk other than the euro;

The Fund shall not use any total return swaps.

The mutual fund shall likely use volatility derivatives, especially volatility index futures, e.g. US and European equity market volatility indexes (respectively VIX and VSTOXX futures) in purchasing and selling up to 3% of fund net assets.

Counterparties eligible for transactions on OTC financial futures are selected according to the procedure described in the paragraph: "Brief description of the intermediary selection procedure."

Financial collateral used for OTC financial futures is the subject of a financial collateral policy available on the management company's website.

These transactions may be completed with counterparties selected by the management company among the financial establishments whose registered offices are located in an OECD member state. These counterparties may be companies affiliated with HSBC Group.

These counterparties must have trustworthy credit, and regardless, the minimum Standard & Poors rating of BBB-, the equivalent, or a rating deemed equivalent by the management company.

This financial collateral policy specifies:

- The haircut applicable to financial collateral. It relies on the volatility of the security, which is characterised by the type of assets received, the rating, the maturity of the security, etc. This haircut has the effect of requiring financial collateral greater than the market value of the financial instrument.
- Assets accepted as collateral that can be made up of cash, government securities, short-term and marketable securities and bonds issued by private issuers.

Financial collateral other than cash may not be sold, reinvested or pledged. Bond securities must have maximum maturity of 50 years.

Financial collateral made in cash must be:

- deposited in credit establishments whose registered offices are in an OECD member nation or a third party country with equivalent reserve regulations,
- invested in high quality government bonds,
- invested in reverse repurchasing agreements whose counterpart is a credit establishment subject to reserve monitoring, and from which the UCITS may withdraw cash at any point, and
- invested in short-term money market investment funds.

Financial collateral discounts in the form of securities and/or cash are held in distinct accounts by the custodian.

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## 4. Securities embedded with derivatives:

The mutual fund may invest in Euro Medium Term Notes (EMTNs), which are securities embedded with derivatives, or certificates which include equity, interest rate, or forex exposure for hedging or exposure purposes. Investments in these types of products may not exceed 10% of the mutual fund's assets.

## 5. Deposits:

The mutual fund may invest up to 10% of its assets in euro deposits for total duration equal to or less than 3 months to replenish its liquid assets.

## 6. Cash loans:

The mutual fund may resort to cash loans of up to 10% of its assets. Cash loans strictly cover current account shortfalls resulting from a gap between subscription and buyback transactions within unit trusts.

## 7. Temporary purchases and sales of securities:

The mutual fund may have incidental recourse to temporarily sell and purchase securities. Repo and reverse repo agreements are favoured in managing cash flow.

The use of temporary purchases and sales is limited to 10% of committed assets,

○ Category of transactions used:

- repo and reverse repos in reference to the French Monetary and Financial Code;
- borrowed and loaned equities in reference to the French Monetary and Financial Code;

○ Category of investments:

Temporary purchase and sales of securities are carried out to achieve the management objective and in the best interest of the UCITS. Only fixed-income instruments may be the subject of temporary purchases and sales of securities.

These transactions aim to:

- Repos and reverse repos: manage UCITS residual cash flow related to subscriptions/buybacks and optimise income.

For protection against default of a counterparty, temporary purchases and sales of securities may provide for financial collateral discounts in the form of securities and/or cash which are held in distinct accounts by the depository. These conditions are stipulated in the section "Derivatives."

- These transactions may be completed with counterparties selected by the management company among the financial establishments whose registered offices are located in an OECD member state. These counterparties may be companies affiliated with HSBC Group.

- These counterparties must have trustworthy credit, and regardless, the minimum Standard & Poors rating of BBB-, the equivalent, or a rating deemed equivalent by the management company.

- potential capital leverage: up to the commitment calculated by the probabilistic method in absolute VaR.

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If the fund is invested in futures markets, its global risk level shall be calculated regarding the absolute VaR as defined below in Part VI. Global risk.

- Compensation: additional information is available under Charges and commissions.

## **Risk profile**

Your money shall be invested mainly in financial instruments selected by the management company. These instruments shall be subject to market fluctuations and uncertainties.

### **Risk related to discretionary management:**

The discretionary management style relies on envisioning developments in both equity and bond markets. There is a risk that the mutual fund will not always be invested in the highest performing markets and assets.

### **Capital risk:**

The UCITS has no guarantee or protection. Therefore, initially invested capital remains at risk.

### **Interest rate risk:**

The portion of the portfolio invested in interest rate products may be impacted by interest rate fluctuations. Hence, when long-term interest rates increase, bond prices fall. These fluctuations may cause a decrease in the net asset value (NAV).

### **Credit risk:**

When interest rate products are invested in securities issued by private issuers, the potential risk of the deterioration of the issuer's standing may negatively impact the price of the security. Consequently, the Fund NAV may decrease.

High-yield securities present increased risk of downgrades and default, and may decline significantly lower than their value.

### **Equity market risk:**

A decrease in the price of equities may lead to a decrease in the mutual fund's NAV. Subscribers are advised that small cap markets include companies which, due to their low capitalisations, may fluctuate, and hence decrease the value of investments in the mutual fund.

### **Forex risk:**

Forex risk consists of the risk of a change in an asset's currency in relation to the mutual fund's reference currency, namely the euro. This may occur through the purchase of instruments issued in currencies other than the euro. Consequently, when exchange rates fluctuate, the Fund NAV may decrease.

The mutual fund may incur forex risks of up to 75% of its assets.

### **Emerging market risk:**

Equity and credit risk are increased through investments in emerging countries whose markets may be more volatile and more rapidly fluctuate than large international ones.

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## **Convertible bond investment risk:**

The value of convertible bonds relies on many factors: interest rate levels, changes in the price of underlying equities, and changes in the price of the derivative within the investment fund. These different elements may decrease the UCITS NAV.

## **Forward financial instrument risk:**

The use of futures may increase or decrease the volatility of the mutual fund, and impact its NAV, in either direction.

## Related risks:

### **Counterparty risk:**

The UCITS is exposed to the counterparty risk resulting from the use of OTC financial futures and temporary purchases and sales of securities. This is the risk that the counterparty with which a contract has been made will not meet its obligations, e.g., delivery, payment, repayment, etc. In this case, the counterparty's default may decrease the Fund NAV. This risk is reduced by the establishment of financial collateral between the mutual fund and the counterparty, as described in the investment strategy.

### **Risk of potential conflicts of interest:**

The risk of conflict of interest, as part of transactions on financial contracts and/or temporary purchases and sales of securities, may exist when the intermediary used to select a counterparty, or the counterparty itself, is linked to the management company (or the depositary) by a direct or indirect equity link. The management of this risk is described in the "Conflict of interest policy" established by the management company and available on its website.

### **Risk related to management of financial collateral:**

The unitholder may be exposed to legal risks (in line with legal documentation, execution of contracts and the limitations therein), transactional risks, and risks related to reuse of cash received as collateral. The mutual fund NAV may change due to fluctuations of the value of securities purchased for investment from cash received as collateral. Due to exceptional market circumstances, the unitholder may also be exposed to liquidity risk involving, for instance, difficulties trading certain securities.

## **Calculation and allocation of the distributable sums**

*In accordance with the regulatory provisions, the net income for the financial year is equal to the amount of interest, arrears, dividends, premiums, bonuses, and directors' fees, as well as all income relating to securities that constitute the Fund's portfolio, plus income from temporary cash holdings, minus management fees and borrowing costs.*

*Sums distributable by a UCITS consist of:*

- 1. The net income increased by retained earnings and plus or minus the balance of accrued income;*
- 2. Capital gains realised, net of costs, less capital losses realised, net of costs, recognised during the financial year, plus net capital gains of the same type recognised in previous financial years that were not distributed or accumulated, plus or minus the balance of accrued capital gains.*



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*The amounts stated in 1 and 2 above may be distributed independently of each other, in whole or in part.*

<b>Distributable sums</b>	<b>Units A, H, R, B and IT</b>
Net earnings (1)	Accumulation
Net capital gains (2)	Accumulation

## **Investment rules**

The mutual fund complies with the investment rules defined in Articles L. 214-4 and D.214-1 et seq. of the French Monetary and Financial Code.

## **Global risk**

The method retained for calculating global risk is absolute VaR.

### Details about calculating global risk of the UCITS:

This calculation is made through determining the value at risk (VaR) of a UCITS, defined as the maximum loss that it can endure over a given period with a determined probability called the "confidence level."

Hence, as calculated by the sum of par values of financial contracts used, the indicative leverage level of the UCITS is 40%.

The maximum, minimum, and average risk levels are stipulated in the Fund annual report.

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## Activity report

### Macroeconomic overview

During the first quarter of 2019, leading indicators in the United States, Europe as well as China and Asia suggested a downturn in economic activity, subsequently confirmed by a deterioration in exports and industrial production, notably in the eurozone. The decline in the manufacturing sector was pronounced in Germany, exposed to new environmental requirements in the automotive sector, and a slowdown in global trade and demand from China and the United Kingdom, but also recessions in Italy and Turkey. The OECD further reduced its global growth forecast to 3.3% in 2019 from 3.6% in 2018, maintaining its warning of downside risks in its forecasts. Indeed, the extended uncertainty tied to Brexit and the American trading policy, coupled with the tax cuts in Italy encumbered the search for safe havens, with employment and consumption risk in sight. Hence for its 2019 forecast, the OECD strongly downgraded the eurozone from 1.0% from 1.8% last November, hampered by Germany, 0.7% from 1.6% initially, and the Italian recession, -0.2% from 0.9% initially expected. In the United Kingdom, the reduction in investments in the fourth quarter tied to Brexit contributed to a deterioration in the 2019 growth outlook, 0.8% versus 1.4% initially. Finally, the Chinese authorities lowered the 2019 growth target from "around 6.5%" to "approximately 6%-6.5%," announcing a further tax stimulus (2% of GDP in 2019) with a reduction in the VAT paid by the manufacturing, construction and transport sectors, and support for infrastructure investments. Faced with its weakening economy, Beijing began making concessions toward a trade agreement with the United States, notably on six American demands regarding technology transfers, IP protection, market access, yen policy, agriculture and removing tariff barriers. In a context of economic slowdown, the large central banks reacted with a more supportive monetary policy. On 4 January 2019, the Chairman of the Federal Reserve Mr Powell declared that monetary policy was adjustable if necessary, and that flexibility applied to both Fed fund rates and changes to its balance sheet. On 15 January, it was the European Central Bank's (ECB) turn, with its Chairman Mr Draghi indicating an increase in downside risks on the economic horizon, and insisting on various supportive measures still available if necessary. On 23 January, the Bank of Japan lowered its inflation forecast, and reaffirmed its commitment to purchase government bonds to keep the 10-year yield on track. Finally, the People's Bank of China lowered its required reserve ratios again for banks, confirming a supportive policy for bank credit, notably for small and medium-sized companies and the private sector. In March, this prudent support was followed by more accommodation than originally anticipated, with the ECB modifying its forward guidance to indicate its rates as unchanged in 2019. The ECB also announced the implementation of numerous liquidity facilities for banks, including a new series of refinancing operations, "Targeted Long-Term Operations III" (TLTRO III), to incentivise bank lending. Finally, on 20 March the Federal Reserve revised its GDP growth outlook from 2.1% for 2019 from 2.3%, signalling a pause in Fed fund rate increases, and declaring that its balance sheet roll-off process would be completed by end September.

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During the second quarter (Q2) of 2019, the world economy showed signs of weakening in the wake of rising Chinese-American protectionism. Indeed, the highly expected agreement between United States and China was not concluded, notably due to dissensions on the subject of industrial subsidies and IP protection. In early May, the United States increased tariffs from 10% to 25% on US\$200 billion of Chinese imports, though without definitively closing the door to a trade agreement. Then China retaliated with new tariffs between 5%-25% on US\$60 billion of American products. If the tensions persisted, the impact on global growth through both trade as well as confidence would be palpable. The risk then of overly weak economic growth would impede developing countries from lowering unemployment and in short order trigger inflation. Economic indicators during the quarter moreover confirmed that such a scenario had become increasingly plausible. Hence American inflation as measured by the core personal consumption expenditures (PCE) price index had declined since January, from 2% a/a to 1.6% a/a in May, and net jobs created slowed from 149.5k on average between April-May versus 153k in the first quarter, and 223.2k on average in 2018. In China and emerging countries, economic indicators were unfavourable overall. Purchasing manager's indicators (PMI) along with trade statistics deteriorated in China and Asia (notably South Korea and Singapore). In China, the figures in May for investments, industrial production and imports were disappointing despite rising retail sales and exports, probably tied to front-loading prior to rising tariffs. Particularly exposed in China, the European manufacturing sector was already weak, especially due to Brexit and the stalemate therein. The decision made by the European Union and the United Kingdom to postpone the Brexit date to 31 October 2019 from 30 March 2019, then the resignation of the Prime Minister followed by a voting process within the Conservative Party to succeed her fed uncertainty around reaching a trade agreement. Given the industrial recovery, both the service sector and consumer consumption have though been well positioned in Europe, with continued lower unemployment in the eurozone (7.5% in May, its lowest level since July 2008) and rising wages (2.2% a/a in Q1, the highest since 2012). However inflation in the eurozone remained contained, notably core inflation between 0.8%-1.3% this quarter. In this environment of tepid growth and inflation, with higher downside risks in sight as well, the central banks mostly were much more accommodating in Q2, both in developed countries (notably the United States, the eurozone, Australia and New Zealand) as well as emerging economies (India, the Philippines, Malaysia, Russia and Chile). The Fed signalled its support at numerous points, notably during a Chicago conference on the review of the monetary policy context. The Fed chairman, Jerome Powell, indeed declared on 4 June that the Fed would "act as appropriate to sustain the expansion with a strong labour market and inflation near its 2 percent objective," suggesting increased openness to lowering rates pre-emptively in a manner comparable to the 1995/96 and 1998 episodes. Then the meeting of the Federal Open Market Committee (FOMC) from 18-19 June revealed that 7 of its 18 members favoured lowering rates by 50 basis points in 2019 (and another assuming -25 basis points). The new median forecast of Fed rates was lowered by -50 basis points to 2.125% at end 2020 instead of 2.625%, and 2.375% at end 2021 instead of 2.625%. Finally, the median forecast of long-term Fed rates is now estimated at 2.5% from 2.8% previously, demonstrating the Fed's accommodating shift in response to structural considerations in the American economy. The ECB also issued an explicitly accommodating statement during its meeting of 6 June. Beyond the unchanged rates through June 2020, versus end 2019 previously, and relatively beneficial conditions for the TLTRO III, the ECB notably declared that it is "determined to act in case of adverse contingencies."

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During the press conference which followed, the President of the ECB Mario Draghi stipulated the options discussed within the Council: new rate reductions, resuming quantitative easing, or additionally a more symmetrical interpretation of the inflation objective (currently "less but close to 2%.") During the Forum on Central Banking in Sintra, Mr Draghi clearly pleaded on 18 June in favour of an "additional stimulus" if the eurozone outlook darkens, and if the expected return of inflation to the ECB objective is threatened.

## Financial overview

During the first quarter of 2019, the more accommodating than expected pivot of the large central banks, the signs of progress in Chinese-American trade negotiations, and the additional tax stimulus in China translated on the financial markets into a renewed buying spree in all asset classes, with resilience from losses incurred in December. At end 2018, the financial markets were deeply troubled by the relative weakness of liquidity tied in part to timely regulatory declarations (causing a surge in transactions at the end of the period), making them vulnerable to unforeseen events. Hence in the first quarter of 2019 (Q1), the MSCI Index (local currency) reached 12.8% for developing country markets, followed by emerging market ones (9.9%). The best market performance occurred in China (MSCI 18%), then in the United States (13.9%) and the eurozone (12%). The uncertainty tied to Brexit and the slowing of global trade weighed on equity performance in the United Kingdom (9.4%) and Japan (7.8%). Emerging markets benefited from the buying spree, but performed ultimately weaker than in developed markets. Despite the Fed's more accommodating shift, and some additional latitude for certain central banks (notably India, Mexico, and Brazil), investors were especially finicky, with modest gains in Brazil (8.7%), India (6.3%), South Africa (4.8%), Mexico (4%), and Turkey (3%). Russian equities (12.2%) and the rouble (12.2% against the dollar) bounced back in the wake of rising crude prices (Brent 27.1% to US\$68.4/barrel) after a sharp decline the prior quarter. The black gold benefited from confirmed production cuts by Saudi Arabia, and the announcement of a likely extension of the agreement between OPEC and its allies beyond June, until end 2019. On currency markets, the US dollar tightened (1.2% in Q1), the Chinese yen rose 2.5% against the US dollar as well as the British pound sterling (2.2% in Q1). In a countertrend, the euro declined -2.2% against the US dollar as well as the Swiss franc and the Chinese yen (-1.4% for both). The Turkish lira remained under pressure (-5% against the US dollar) as well as the South Korean won (-2.1%), the Brazilian real (-1.0%) and the South African rand (-1.1%). The recovery of global markets was accompanied by a bond market rally, with a sharp drop in yields and credit spreads. For the first time since early 2018, bond funds recorded substantial yields, motivated by the search for returns. The credit spreads on corporate bonds diminished, notably in the high-yield segment in the United States and the eurozone. On sovereign debt, the 10-year German rate declined anew at -0.07% at end March 2019 (-57 basis points in Q1), approximating its lowest historic point of 2016, and thus joining the club of countries with negative 10-year rates (-0.43% in Switzerland and -0.10% in Japan). On the markets bordering the eurozone, sovereign risk indicators declined except in Italy, where the yield spread of Italian government bonds in relationship to the German Bund fluctuated between 250-290 basis points despite a net drop from the prior autumn when the proposed budget of the Italian government was announced. The 10-year American T-Bond rate fell by -23 basis points to 2.41% end March, and for the first time since 2007 with a slight inversion of the 3 month/10-year curve. That drop in prime rates at the end of the quarter seemed to reflect renewed demand for safer assets, owing to a certain prudence in light of the efficacy of tax and monetary policy turnabouts on the growth and inflation dynamic.

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In the second quarter (Q2) of 2019, the evidently more accommodating change of course by the central banks strongly supported all asset classes. On equity markets, the MSCI Global <sup>1</sup> Index (in local currency) rose to 3.4% in Q2, with an over performance of developed markets, notably the United States (MSCI 4.3%) and in the eurozone (MSCI 7%), particularly Germany (DAX index up 8.5%) and France (CAC40 4.6%), and this despite a decline in Japan (MSCI -1.6%). On emerging equities markets, trade tensions fed an aversion to risk in Asia. The fall of Chinese equities (MSCI -4.2%) was only partially compensated for by strong rebounds in Russia (MSCI 17.3%), Brazil (MSCI 7.2%) and South Africa (MSCI Indexes 6.8%). On the bond market, both sovereign debt and credit spreads collapsed in the wake of expected declines in Fed rates. In the United States, the Fed Funds futures rate integrated four rate drops between now and end 2020, including nearly 3 from now until end 2019. In the eurozone, futures also included a deposit rate drop between now and the end of the year, but with a lesser likelihood in the United States. Despite the very accommodating shift of the Fed and the ECB, five-year inflation forecasts set new records in the eurozone (1.14% on 17 June, reaching 1.21% on 30 June from 1.35% end March) and continued to decline in the United States (-18 basis points to 2.04%). These developments signalled an unhinged risk about the inflation outlook, and a weakening of the credibility of monetary policy to be able to sustainably revive inflation. Sovereign 10-year bond rates fell in the United States (-40 basis points to 2.01%), and reached historic lows in Germany (-26 basis points to 0.33%) and France (-32 basis points to -0.1%), but also at the eurozone periphery (strong declines in 10-year yields in Spain and Portugal, respectively -70 basis points to 0.40% and -77 basis points to 0.48%). Reduced short-term rate forecasts sustained return-seeking, notably favouring implementation of carry trades<sup>2</sup> on both peripheral eurozone and emerging market debt securities and on high-yield credit. Rate curves in the eurozone were generally flat, via a steep drop in the long parts, and peripheral security spreads declined significantly against the Bund. Only the Italian BTP 10-year yield declined more modestly (-39 basis points to 2.10%), along with its spread against the Bund (-13 basis points to 243 basis points), hurt by the risky tax cuts. On the currency and raw materials markets, the lack of clarity on the trade agreement front hurt the Chinese yen (-2.5% against the US dollar in Q2), but also the pound sterling (-2.6% against the US dollar, and -3.9% against the euro), all reinforcing the appetite for gold (9.1%), the yen (2.7%) and the Swiss franc (2.0%). Finally, the price of WTI crude (-1.4% to US\$58.5 end June) fluctuated strongly (between US\$51.1-66.3 this quarter) in the wake of geopolitical uncertainty (escalating tensions between the United States and Iran), and the risks impacting global demand.

Source: Bloomberg data at 28/06/2019.

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<sup>1</sup> MSCI Index expressed in local currency.

<sup>2</sup> A “carry trade” consists of taking advantage of yield spreads, for instance borrowing in a currency with a lower interest rate, then investing the corresponding funds in a higher interest rate asset.

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## Management policy

### Asset allocation

The early year economic environment and market valuations made equity markets more attractive than bonds. And despite May's correction, our overexposure proved lucrative over the half-year. The portfolio was exposed to equities by 56% during the first half-year, with routine profit taking. Over the medium-term, we favoured overexposure in risky assets, especially equities over eurozone government bonds. We maintain a flexible exposure which typically fluctuates between 49%-67% on equities. We are less sensitive to changes in government bond yields. Concerning private credit, we have profit taken from the high-yield segment during the first quarter to favour the investment credit category.

### Geographic allocation (equity compartment)

Based on 100% of equities, the European preponderance varied with an approximate average of 44%, from a maximum of 51% at the start of the period to a minimum of 37%. The delay in the exit by Great Britain from the eurozone and the economic slowdown observed in the manufacturing sector has led us to limit our positions on equities in the eurozone.

From a marked exposure in American equities (36%) at the start of the year, we have partially profit taken to lower it to 24% of our equity positions by end March. As the Fed transitioned to a more accommodating policy, we have very progressively increased our exposure during the second quarter to reach 36% by end June. American equities represented on average 31% of equity investments.

Japan was penalized by slowing global trade and a strong Chinese yen, and our balancing dropped from 4% to 2%.

Emerging markets, with a preference for China, represented up to 24% of our investments. We have been reducing our positions since early April. Our global emerging position is maintained at around 14%, with a preference for developed Asia in April and May. We slightly increased our positions in China and introduced North Korea in June.

Along with our gold balancings, we traded the ageing demographics thematic in favour of automation and robotics. Positions in gold securities were liquidated at end June at the highest price for an ounce of gold.

### Equity investment vehicles

The European compartment largely contributed to the portfolio's performance, except during May. The best performance came from funds profiting from growth: **HSBC GIF Euroland Growth** (22.7%), while unlisted securities funds suffered from their large stakes in banking (**HSBC GIF Euroland Equity** 14.5%, **ETF Lyxor MSCI EMU Value** 10.8%). With the slowdown in growth, we have invested in a fund with quality securities (**iShares Edge MSCI ERP Quality**, 18.2%) and reduced our positions in the weak volatility fund **MSCI Europe Min Vol** (14.6%).



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Our exposure to American equities was largely positive thanks to the choice of vehicles: **Invesco EQQQ Nasdaq** (22.2% in EUR), **iShares MSCI US Quality** (21.2% in EUR) and **iShares Edge S&P 500 Min Vol** (20.5% in EUR).

Emerging countries contributed less: **iShares Core MSCI EM IMI** (11.2% in EUR); **HSBC Gif Frontier Markets** (18.2% in EUR); **HSBC MSCI China** (12.6% in EUR).

## Bond allocation compartment

In the interest rate compartment, bond yields still seem too low for us and insufficiently compensate the inherent rising rate risk, especially for European government bonds.

Thus we tended to reduce our bond investments over the period which prevented us from fully taking advantage of the significant easing of long rates during the half year.

Regardless, yields were quite positive: **HSBC GIF Euro Bond** (6%); **HSBC Global Corp Bond** (7.3%, hedged in euros); **HSBC GIF Euro High Yield** (8.2%).

Emerging debts largely contributed, along with dollar debt funds (**HSBC GIF Global Emerging Markets Bond** 9.6%, hedged in EUR) and local currency ones (**HSBC GIF Global Emerging Markets Local Debt** 7.6% in EUR).

In the diversification compartment, our absolute performance fund (**HSBC GIF Multi Asset Style Factors** 4.2%) also performed well.

## Performance

HSBC SELECT FLEXIBLE	6 month perf
HSBC SELECT FLEXIBLE (R) (C) (EUR)	9.88%
HSBC SELECT FLEXIBLE (A) (C) (EUR)	9.40%
HSBC SELECT FLEXIBLE (B) (C) (EUR)	9.73%
HSBC SELECT FLEXIBLE (H) (C) (EUR)	9.72%

Past performance is no guarantee of future performance.

## Incidents affecting the Fund during the financial year or forthcoming

### 11 February 2019 – Regulatory update and other changes

We inform you of the implementation of new regulatory obligations in accordance with various successive AMF directives:

- Added to the section “**Form of units,**” without amending the actual process, a clarification concerning unit subscriptions in registered form.
- Added to the table “**Description and redemption methods**” editorial changes stipulating notably the settlement dates of subscriptions and redemptions.
- Added to Article 3 of the rule on the notice regarding the provisional or definitive cessation of the issuance of the unit.

# HSBC SELECT FLEXIBLE MUTUAL FUND

## **14 June 2019 – Stipulations on the composition of assets and other modifications**

We inform you that the Fund whose units are listed below was subject to the following changes:

- Unit A (ISIN code: FR0007036926)
- Unit H (ISIN code: FR0011883347)
- Unit R (ISIN code: FR0013269875)
- Unit B (ISIN code: FR0013313996)
- Unit IT (ISIN code: FR0013234911)
  
- In the composition of the Fund's assets:
  - added to the potential option of investing in foreign index and/or tracker investment funds up to 10% of assets,
  - deletion of the term "*principally*" referring to investment funds of the HSBC Group; now investment funds selected may be managed by an HSBC Group entity but more than primarily;
  
- Added from the London and New York exchanges, the regular calculation of the NAV shall occur on each trading day, with the exception of legal holidays in France, closing days on French markets (official Euronext Paris SA calendar) or in London (official LSE calendar) and New York (official NYSE calendar);
  
- Harmonisation of the settlement deadlines related to the subscription and redemption requests: the execution deadline of redemption request settlements is reduced from 3 to 2 working days (D+2) following the date of establishment of the NAV, except for IT units.

The KIID and Fund prospectus have also been editorially harmonised.

There is no effect on the management strategy of the Fund and it does not require a request for approval from the AMF.



# HSBC SELECT FLEXIBLE MUTUAL FUND

## Statement of assets in EUR

Items	Balance on the closing date*
a) Eligible securities covered by the 1st section of Article L. 214-20 of the French Monetary and Financial Code.	
b) Bank balances	12,056,372.07
c) Other Fund assets	225,621,992.77
d) Total Fund assets (lines A+B+C)	237,678,364.84
e) Liabilities	-4,561,340.77
f) Net statement value (lines D+E = Fund net assets)	233,117,024.07

\*Negative amounts are preceded by “-”

## Number of outstanding units and the net statement value by unit

Investment fund	Type of unit	Number of outstanding units	Net statement value per unit
HSBC SELECT FLEXIBLE R	C	65.0290	1,005.32
HSBC SELECT FLEXIBLE A	C	2,509,489.4250	85.81
HSBC SELECT FLEXIBLE H	C	124.3445	107,825.36
HSBC SELECT FLEXIBLE B	C	42,471.5742	101.07

# HSBC SELECT FLEXIBLE MUTUAL FUND

## Securities portfolio elements

Securities portfolio elements	Percentage of net assets*	Total percentage of assets**
a) Eligible securities and marketable instruments listed for trading on a regulated market as defined by Article L. 422-1 of the French Monetary and Financial Code. and b) eligible securities and money market instruments listed for trading on another regulated, regularly operating, recognised market which is open to the public and whose registered office is located in a country member of the European Union or another country which is a signatory to the European Economic Area.		
c) Eligible securities and marketable instruments listed for trading on a securities market of a third party country or traded on another market in a third party country, which is regulated, regularly operating, recognised, and open to the public, as long as this market or exchange does not appear on a list issued by the French Financial Markets Regulator (AMF), or that the choice of this market or exchange is legally stipulated by the regulations or statutes of the UCTIS.		
d) Eligible newly issued securities covered by the 4th section of Article R. 214-32-18 of the French Monetary and Financial Code.		
e) Other assets.	96.26	94.41

\* See f) of the Statement of assets

\*\* See d) of the Statement of assets

# HSBC SELECT FLEXIBLE MUTUAL FUND

## Breakdown of assets from A), B), C), and D) of the securities portfolio by currency

Securities	Currency	Amount in €	Percentage of net assets*	Total percentage of assets**
None				

\* See f) of the Statement of assets

\*\* See d) of the Statement of assets

# HSBC SELECT FLEXIBLE MUTUAL FUND

## Breakdown of assets from A), B), C), and D) of the securities portfolio by domicile country of the issuer

Country	Percentage of net assets*	Total percentage of assets**
None		

\* See f) of the Statement of assets

\*\* See d) of the Statement of assets

# HSBC SELECT FLEXIBLE MUTUAL FUND

## Breakdown of other assets from E) from the securities portfolio, by type

Type of assets	Percentage of net assets*	Total percentage of assets**
<b>Investment funds</b>		
UCITS and RIFs intended for non-professionals and the equivalent in other countries	88.90	87.20
Other funds intended for non-professionals and the equivalent in other EU State member countries		
RIFs and the equivalent from other EU member countries and listed securitisation vehicles	7.36	7.22
Other RIFs and the equivalent from other EU member States and non-listed securitisation vehicles		
Other non-European vehicles		
<b>Other assets</b>		
Other		
<b>TOTAL</b>	<b>96.26</b>	<b>94.41</b>

\* See f) of the Statement of assets

\*\* See d) of the Statement of assets

# HSBC SELECT FLEXIBLE MUTUAL FUND

## Transactions in the securities portfolio during the period (in €)

Securities portfolio elements	Transactions (amounts)	
	Acquisitions	Sales
a) Eligible securities and marketable instruments listed for trading on a regulated market as defined by Article L. 422-1 of the French Monetary and Financial Code. and b) eligible securities and money market instruments listed for trading on another regulated, regularly operating, recognised market which is open to the public and whose registered office is located in a country member of the European Union or another country which is a signatory to the European Economic Area.		
c) Eligible securities and marketable instruments listed for trading on a securities market of a third party country or traded on another market in a third party country, which is regulated, regularly operating, recognised, and open to the public, as long as this market or exchange does not appear on a list issued by the French Financial Markets Regulator (AMF), or that the choice of this market or exchange is legally stipulated by the regulations or statutes of the UCTIS.		
d) Eligible newly issued securities covered by the 4th section of Article R. 214-32-18 of the French Monetary and Financial Code.		
e) Other assets.	194,178,869.85	222,849,485.02

# HSBC SELECT FLEXIBLE MUTUAL FUND

## **Transparency of securities financing transactions and reuse - SFTR regulation - in the accounting currency of the Fund (€)**

During the financial year, the investment fund was not subject to transactions arising from the SFTR regulation.

# HSBC SELECT FLEXIBLE MUTUAL FUND

## Certification from the registered auditor on the asset mix



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### HSBC Select Flexible

#### Certification from the registered auditor on the asset mix as of 28 June 2019

To the Management Company:

In our capacity as registered auditor for the HSBC Select Flexible mutual fund and in application of the regulatory provisions in force pursuant to the monitoring of the asset mix, we have issued this certification on the information appearing in the asset mix as of 28 June 2019 attached.

This information was issued under the responsibility of the management company. It is our duty to provide our opinion on the consistency of the information in the asset mix with the knowledge that we have on the investment fund based on our mission of auditing the annual statements.

We have taken the due diligence that we deemed consistent with the professional code of the French national body of auditors (CNCC) regarding this mission. This due diligence which concerned neither an audit nor a limited review consisted essentially of completing analytical procedures and meetings with persons who produced and monitored the information provided.

On the basis of our work, we have no opinion to offer on the consistency of information appearing in the document which is attached with the knowledge that we have of the investment fund based on our mission of auditing the annual statements.

Paris, La Défense, 23 August 2019

Ernst & Young et al., the  
Registered Auditor

Youssef Boujanoui

Simplified joint stock company with variable capitalisation  
438 476 913 R.C.S. Nanterre

Auditing services firm

Registered office: 1-2, place des Saisons - 92400 Courbevoie – Paris - La Défense 1, France



# HSBC SELECT FLEXIBLE MUTUAL FUND

## Detail of portfolio securities in EUR

Name of security	Currency	Net or total number	Current value	% net assets
<b>Investment funds</b>				
<b>UCITS and RIFs intended for non-professionals and the equivalent</b>				
<b>FRANCE</b>				
HSBC EURO GVT BOND FUND ZC	EUR	13,904	15,081,529.76	6.47
HSBC MONEY ZC	EUR	649	894,851.78	0.38
MULTI UNIT FRANCE OEIC LYXOR-CAC 40 DR ETF UCITS Dist	EUR	48,500	2,701,935.00	1.16
<b>TOTAL FRANCE</b>			<b>18,678,316.54</b>	<b>8.01</b>
<b>IRELAND</b>				
HSBC S AND P 500 ETF	USD	1,004,078	26,092,758.44	11.20
INVESCO EQQQ NASDAQ-100 UCITS ETF	GBP	45,300	7,467,564.26	3.20
ISH EDGE MSCI EU MOMENTUM FCTR UCTS ETF	EUR	236,100	1,591,195.95	0.68
ISHARES EDGE MSCI EUROPE MIN VOL	EUR	86,638	3,909,972.94	1.68
ISHARES EDGE MSCI USA QUALITY FACTOR UCITS ETF	USD	933,375	5,837,691.82	2.50
iShares IV PLC - iShares Automation & Robotics UCITS ETF	USD	307,639	2,049,035.67	0.88
ISHARES MSCI EUROPE EX-UK	EUR	86,612	2,771,150.94	1.19
iShares PLC - iShares Core MSCI EM IMI UCITS ETF	USD	240,750	5,982,810.85	2.57
ISHARES SP 500 HEALTH CARE	USD	103,700	612,383.65	0.26
iShares III PLC - iShares S P SmallCap 600 UCITS ETF	USD	354,700	1,586,541.21	0.68
iShares VI PLC - iShares Edge S P 500 Minimum Volatility UCI	USD	33,900	1,698,274.50	0.73
ISHS FTSE/MACQUARIE GL INFRA	GBP	118,366	3,057,038.73	1.31
ISHS MSCI KOREA USD	EUR	61,760	2,200,447.04	0.94
<b>TOTAL IRELAND</b>			<b>64,856,866.00</b>	<b>27.82</b>
<b>LUXEMBOURG</b>				
db x-trackers SICAV - db x-trackers MSCI EMU INDEX UCITS ETF	EUR	603,798	24,000,970.50	10.31
ECONOMIC SCALE US EQUITY ZC	USD	259,900	3,023,722.43	1.30
EUROLAND GROWTH ZC	EUR	455,410	6,740,068.00	2.89
Global Emerging Markets Local Debt Z Cap	USD	410,000	3,897,304.18	1.67
HSBC EURO LIQUIDITY FD.CL.C	EUR	2,372,600	2,902,859.82	1.25
HSBC EUROLAND EQ.SMALLER Z C.	EUR	8,450	863,826.60	0.37
HSBC EUROLAND EQUITY Z CAP.	EUR	106,432	5,666,439.68	2.43
HSBC GI CHIN EQ ZC	USD	3,800	357,963.47	0.15
HSBC GIF FRONTIER MARKETS ZC	USD	280,500	2,081,581.93	0.89
HSBC GIF MULTI ASSET STYLE FACTORS ZC	EUR	1,457,090	15,445,154.00	6.63
HSBC GIF-EURO CONVERT BD-ZC	EUR	95,339.954	936,715.05	0.40
HSBC GIF-EURO CREDIT BD-ZC	EUR	400,300	4,551,010.70	1.95

# HSBC SELECT FLEXIBLE MUTUAL FUND

## Detail of portfolio securities in EUR

Name of security	Currency	Net or total number	Current value	% net assets
HSBC GIF-GL SD HY B-ZQ1HEUR	EUR	868,720	8,191,160.88	3.51
HSBC GIF-RMB FIXED INCOME Z USD CAP	USD	490,950	4,528,828.37	1.94
HSBC GL EURO CREDIT BD TR ZC	EUR	383,200	4,596,484.00	1.97
HSBC GLB INV-ASIA BD-ZDHEUR	EUR	414,200	4,408,330.60	1.89
HSBC GL. INV.EUR.CURR.H.Y.Z C.	EUR	159,811	8,359,393.79	3.59
HSBC GLOB GL EM ZHC EUR C.	EUR	552,700	5,746,421.90	2.47
HSBC GLOBAL EMERG MKTS LOCAL CURR RATES ZO EUR	EUR	244,800	2,489,860.80	1.07
HSBC GLOBAL INVEST FUNDS GLOBAL INFLATION LINKED BOND ZCHEUR	EUR	323,550	3,365,243.55	1.44
HSBC Global Investment Funds - Asia Pacific ex Japan Equity	USD	160,033.671	2,877,458.25	1.23
HSBC-GLB CORP BD-ZCHEUR	EUR	715,900	7,631,494.00	3.27
LIF MSCI EMUU VAL (DR)-C-EUR- CAP	EUR	9,500	1,047,280.00	0.45
<b>TOTAL LUXEMBOURG</b>			<b>123,709,572.50</b>	<b>53.07</b>
<b>TOTAL UCITS and retail investment funds (RIFs) intended for non-professionals and the equivalent in other countries</b>			<b>207,244,755.04</b>	<b>88.90</b>
<b>RIFs and the equivalent from other EU member countries and listed securitisation vehicles</b>				
<b>IRELAND</b>				
HSBC MSCI CHINA ETF	USD	727,500	5,093,074.95	2.19
ISH EDGE MSCI EU QLTY FACTOR UCTS ETF	EUR	222,200	1,506,293.80	0.65
SPDR S&P 400 MID	USD	17,800	881,325.08	0.38
X MSCI NORDIC	EUR	43,700	1,501,532.00	0.64
<b>TOTAL IRELAND</b>			<b>8,982,225.83</b>	<b>3.86</b>
<b>LUXEMBOURG</b>				
LYXOR CORE MSCI JAPAN DR	EUR	206,800	2,325,983.00	1.00
Multi Units Luxembourg SICAV - Lyxor DAX (DR) UCITS ETF	EUR	49,900	5,843,290.00	2.50
<b>TOTAL LUXEMBOURG</b>			<b>8,169,273.00</b>	<b>3.50</b>
<b>TOTAL RIFs and the equivalent from other EU member States and listed securitisation vehicles</b>			<b>17,151,498.83</b>	<b>7.36</b>
<b>TOTAL Investment funds</b>			<b>224,396,253.87</b>	<b>96.26</b>
<b>Forward financial instruments</b>				
<b>Futures, forwards, and swaps</b>				
<b>Futures, forwards, and swaps on regulated or similar markets</b>				
CBF CBOE VIX FU 0819	USD	-43	10,383.74	
CBF CBOE VIX FU 1219	USD	14	-3,380.75	
CME E-M INDUS S 0919	USD	1	1,956.02	
CME SP E-MINI F 0919	USD	1	1,218.39	

# HSBC SELECT FLEXIBLE MUTUAL FUND

## Detail of portfolio securities in EUR

Name of security	Currency	Net or total number	Current value	% net assets
CME SP EMINI HE 0919	USD	1	1,431.33	
CME XAE ENERGY 0919	USD	-1	-2,889.01	
EUR DJE 600 BAN 0919	EUR	-1	-80.00	
EUR DJE 600 OIL0919	EUR	89	30,560.00	0.01
EUR DJES BANKS 0919	EUR	7	140.00	
EUR XEUR FSTS D 0919	EUR	53	23,315.00	0.01
EUR XEUR FSTU D 0919	EUR	1	-70.00	
EUR XEUR FSTY D 0919	EUR	35	13,385.00	0.01
H KF HHI HANG SE 0719	HKD	11	2,961.71	
NK2 TOKYO NIK 0919	JPY	5	-1,120.67	
NQ USA NASDAQ 0919	USD	-5	-5,011.42	
NYS NYL MSCI EM 0919	USD	32	29,030.56	0.01
SP 500 MINI 0919	USD	-26	-22,732.26	-0.01
TY CBOT YST 1 0919	USD	9	2,689.23	
XEUR FBTP BTP 0919	EUR	-1	-4,600.00	
XEUR FESX DJ STOXX50	EUR	-176	-129,730.00	-0.05
<b>TOTAL futures, forwards and swaps on regulated or similar markets</b>			<b>-52,543.13</b>	<b>-0.02</b>
<b>TOTAL futures, forwards and swaps</b>			<b>-52,543.13</b>	<b>-0.02</b>
<b>Options</b>				
<b>Options on regulated or similar markets</b>				
DJ EURO STOXX 50 ' 09/2019 CALL 3700	EUR	593	43,289.00	0.02
<b>TOTAL options on regulated markets</b>			<b>43,289.00</b>	<b>0.02</b>
<b>TOTAL options</b>			<b>43,289.00</b>	<b>0.02</b>
<b>TOTAL forward financial instruments</b>			<b>-9,254.13</b>	
<b>Margin calls</b>				
Indo margin call sales in HK\$	HKD	-26,350.01	-2,961.71	
Indo margin call sales in £	GBP	565	631.43	
Indo margin call sales in \$	USD	-14,128.07	-12,406.10	-0.01
Indo margin call sales in €	EUR	67,420	67,420.00	0.03
Indo margin call sales in ¥	JPY	137,500	1,120.67	
<b>TOTAL margin calls</b>			<b>53,804.29</b>	<b>0.02</b>
<b>Receivables</b>			<b>996,206.82</b>	<b>0.43</b>
<b>Debt</b>			<b>-2,767,763.05</b>	<b>-1.19</b>
<b>Fiscal accounts</b>			<b>10,447,776.27</b>	<b>4.48</b>
<b>Net assets</b>			<b>233,117,024.07</b>	<b>100.00</b>