

# HSBC Investment Funds

Annual Short Report

**15 January 2014**

# Important Notes

This Annual Report covers the period 16 January 2013 to 15 January 2014.

Investments in stocks and shares can go down as well as up and investors may not get back the amount they originally invested. This can affect the price of shares within open-ended investment companies and the income from them.

Past performance should not be seen as a reliable indication of future returns.

Your holding in an open-ended investment company must be regarded as a medium to long-term investment; this means for at least five years.

Where overseas securities are held the prices and income may also be affected by changes in currency exchange rates. It is possible that the value of an investment may fall below its original level.

Investments in emerging markets are by their nature higher risk and potentially more volatile than those inherent in some established markets. These risks include the possibility of failed or delayed settlement, registration and custody of securities and the level of investor protection offered.

Where a fund holds gilts or other fixed interest securities, the value of the underlying assets is strongly affected by interest rate fluctuations and by changes in the credit ratings of the underlying issuer of the assets. There is a risk that both the relative yield and the capital value of these may be reduced if interest rates go up.

Please note any reference to "Fund" or "Funds" means a sub fund of the Company.

The views expressed are those of HSBC Global Asset Management (UK) Limited and do not constitute investment advice. No liability can be accepted for recipients acting independently on its content.

## Contact Details

### Company

HSBC Investment Funds - Registered in England with Company Number IC000073

### Registered Office

8 Canada Square, London E14 5HQ

### Authorised Corporate Director (ACD) and Head Office

HSBC Global Asset Management (UK) Limited, 78 St James's Street, London SW1A 1EJ

HSBC Global Asset Management (UK) Limited is authorised and regulated by the Financial Conduct Authority (FCA) and is a member of the Investment Management Association (IMA).

### Registrar (delegated to HSBC Bank plc)

HSBC Global Asset Management (UK) Limited, Frobisher House, Nelson Gate, Commercial Road, Southampton, SO15 9DF

Telephone

0800 181 890 (Professional Advisers)†

0800 289 505 (Direct Investors)†

0845 745 6123 (Investors)\*

+44 238 024 4095 (Investors Overseas)\*

0845 766 0391 (Textphone)

+44 238 072 3029 (Overseas Textphone)

†Lines are open Monday to Friday from 9am to 5pm, excluding public holidays.

\*Lines are open Monday to Friday from 8am to 6pm, excluding public holidays.

### Administrator (postal address)

PO Box 6189, Coventry, CV3 9HS

### Auditor

KPMG LLP, Saltire Court, 20 Castle Terrace, Edinburgh EH1 2EG

### Depository

State Street Trustees Limited, 525 Ferry Road, Edinburgh EH5 2AW  
Authorised and regulated by the Financial Conduct Authority.

### Website

[www.assetmanagement.hsbc.com/uk](http://www.assetmanagement.hsbc.com/uk)

There are risks involved in investing in HSBC Investment Funds. Please refer to the Prospectus, Key Investor Information Document (KIID) and Supplementary Information Document (SID) for further details.

The information in this report is based on our understanding of current law and HM Revenue and Customs practice as at 15 January 2014. Both law and practice may of course change.

## Contents

Important Notes	2
Changes to the Scheme	3
HSBC Investment Funds	
<b>Balanced</b>	<b>4</b>
<b>UK Growth &amp; Income</b>	<b>6</b>
<b>Income</b>	<b>8</b>
<b>Monthly Income</b>	<b>10</b>
<b>Gilt &amp; Fixed Interest</b>	<b>12</b>
<b>Corporate Bond</b>	<b>14</b>
Corporate Shareholders	16
Risk and Reward Profile	17
General Information	18
Quick Reference Guide	19

## Changes to the Scheme

### Definitions

"US Person" has been expanded for clarity and "switching" has been changed to limit switches between Funds and not share classes. Several new definitions have been added for "Canadian Resident", "Conversion", "Group 1 Shares" and "Group 2 Shares".

### Share Classes

The ACD made the Income C and Accumulation C share classes available to the Balanced Fund on 9 December 2013.

### Share Dealing Restrictions

This has been expanded to clarify the ACD's ability to compulsorily redeem and remove Shareholders who are or become US Persons. It further clarifies the distribution restrictions within Canada.

In addition, the ACD has restricted the investment in the Shares for the purpose of creating a structured product replicating the performance of the Fund(s).

### Buying Shares

The ACD has clarified that, when buying Shares, if a cleared payment is not received by the time and date specified in the contract note the instruction to buy Shares may be cancelled and in such circumstances no Shares will be issued to the applicant.

The applicant or their financial intermediary will be liable for the cost of the cancellation. Furthermore, failure to make payment by the date specified may result in the Company or the ACD bringing an action against the defaulting applicant or their intermediary, or deducting any costs or losses incurred by the Company or the ACD against any existing holdings of the applicant.

### Conversions

Shareholders can exchange Shares of one class for different Shares in another class in the same Fund, subject to restrictions set out in the Company Prospectus.

### Protected Cell Company

The ACD has converted the Company to a protected cell company as required by the OEIC regulations. Conversion to a protected cell company is a mandatory requirement, the objective being that the assets of each sub fund of the company are ring-fenced so that they are identified as belonging exclusively to that Fund and are not used to discharge directly or indirectly the liabilities of, or claims against, any other person or body, including the Company, or any other Fund of the Company. At the same time the ACD made changes to allow each sub fund ("Fund") to invest in another Fund within the same Company as permitted by the OEIC regulations.

# Balanced

## Investment Objective

To obtain capital growth in the longer-term together with income.

## Investment Policy

To invest in a diverse portfolio of equities and bonds in the UK and overseas, together with money market instruments.

## Investment Strategy

The Fund's weighting are 75% equities, 20% bonds and 5% cash, which includes 40% in UK equities. Each category and sub category (eg Europe or Japan) has a range of +/-5% around the internal benchmark.

## Risk Profile

The Fund has little exposure to credit or cash flow risk. There are no borrowings or unlisted securities of a material nature and so there is little exposure to liquidity risk. The main risks it faces from its financial instruments are market price and foreign currency. The Manager reviews policies for managing these risks in order to follow and achieve the Investment Objective and Policy as summarised above.

## Fund Facts

*XD dates:* 16 January, 16 July

*Distribution payment dates:*  
15 March, 15 September

## Ongoing Charges Figure (OCF)

As at 15.1.14 - 1.70%

As at 15.1.13 - 1.72%

The OCFs shown above are calculated on the Retail Accumulation share class.

## Portfolio Activity

Stock selection and asset allocation both contributed to the Fund's performance over the period. Strong stock selection in the UK and North American equity markets contributed to performance but selection in Asia (excluding Japan) and Europe (excluding UK) equities detracted from the Fund's relative returns.

From an asset allocation perspective, overweight positions in money markets and UK fixed interest proved positive. This was partially offset, however, by overweight exposures to Japan and Asia (excluding Japan) equities.

The Fund maintained a preference for equities, and favoured developed markets, namely the UK, Europe, the US and Japan. These positions benefited from relative performance as returns from both emerging markets and Asian equities struggled to keep pace.

UK economic activity improved with a broad recovery across the major economic sectors, especially services and construction. This environment should encourage stronger consumer spending. Activity in the eurozone has been largely muted, although we expect an improvement in momentum, which will benefit the UK. The Bank of England is likely to maintain its accommodative policy, but improving data will increase uncertainty over the Bank's future decisions.

We believe that stronger UK growth and quantitative easing tapering in the US will push UK gilt and US Treasury yields moderately higher in 2014. The fundamental situation for UK corporate bonds still looks strong, with improving economic growth, stable leverage and good cashflow coverage.

In terms of activity, major purchases included: HSBC GIF Economic Scale Index GEM Equity Fund and Rexam.

Significant sales included: HSBC GIF Global Emerging Markets Equity Fund and Barclays.

Please note that the above information refers to the past and that past performance is not a reliable indication of future returns.

## Distribution

Date paid/ payable	Distribution rate - Retail Income shares	Distribution rate - Retail Accumulation shares
15.3.14	0.412870p	0.583204p
15.3.13	0.387304p	0.545222p

## Fund Prices

Share class	Net asset value per share as at 15.1.14	Net asset value per share as at 15.1.13
Retail Income	118.9p	108.5p
Retail Accumulation	169.8p	153.1p
Income C	119.1p	N/A
Accumulation C	169.9p	N/A

## Performance Record

### Percentage Change

#### 6 months

1.31

#### 1 year

10.91

#### 3 years

18.16

#### 5 years

62.64

#### 10 years

77.62

Please note that the above figures refer to the past and that past performance is not a reliable indication of future returns.

Performance is cumulative over the period indicated to 15 January 2014.

(Source: Morningstar Direct, GBP, UK net of tax, for the Retail Accumulation share class. Returns based on the NAV, which is a single price.)

## Portfolio Information

### Major Holdings

The Fund's five largest holdings, or holdings above 5%, at the end of this year and the previous year are shown below.

Holding	% of Fund value as at 15.1.14
+ HSBC Japan Index Fund	5.24
+ HSBC Holdings (London listed)	2.49
Ryanair	2.40
+ HSBC GIF Economic Scale Index GEM Equity Fund	1.95
Prudential	1.94
+related party	

Holding	% of Fund value as at 15.1.13
+ HSBC Japan Index Fund	4.62
+ HSBC Holdings (London listed)	3.69
+ HSBC GIF Global Emerging Markets Equity Fund	2.94
Resolution	1.99
Barclays	1.94
+related party	

### Investment Allocation

	15.1.14 %	15.1.13 %
UK	50.48	50.23
USA	11.33	12.42
France	5.45	3.27
Luxembourg	5.40	6.35
Channel Islands	3.66	3.73
Ireland	3.07	2.64
Germany	2.36	2.70
Switzerland	2.07	2.23
Bermuda	1.56	1.67
China (including Hong Kong)	1.41	1.80
Italy	1.21	1.50
Japan	1.19	1.24
South Korea	1.02	1.17
Other	5.36	6.52
Net other assets	4.43	2.53

# UK Growth & Income

## Investment Objective

To provide long-term capital and income growth by investing predominantly within the UK.

## Investment Policy

To invest predominantly in UK equities, fixed interest and other securities.

## Investment Strategy

To provide long-term capital and income growth through active stock selection to create a portfolio of about 40 stocks. The stock selection process is based on quantitative and qualitative factors, with fundamental research being the most important aspect.

## Risk Profile

The Fund has little exposure to credit or cash flow risk. There are no borrowings or unlisted securities of a material nature and so there is little exposure to liquidity risk. The main risks it faces from its financial instruments are market price and foreign currency. The Manager reviews policies for managing these risks in order to follow and achieve the Investment Objective and Policy as summarised above.

## Fund Facts

*XD dates:* 16 January, 16 July  
*Distribution payment dates:*  
15 March, 15 September

## Ongoing Charges Figure (OCF) - Retail

As at 15.1.14 - 1.64%  
As at 15.1.13 - 1.65%

## Ongoing Charges Figure (OCF) - Retail B

As at 15.1.14 - 1.02%  
As at 15.1.13 - 1.02%

## Portfolio Activity

In the first half of the period under review, the Fund outperformed the FTSE All-Share index\*. Returns were driven at the stock level as a number of companies provided the market with positive corporate updates. In particular, Kingfisher's management continued to deliver on its agenda, which aims to maintain gross margins whilst noting that sales had increased following an improvement in weather conditions and consumer confidence. Meanwhile, Resolution's core UK business performed well over the period with the potential for an improvement in the value of their existing business and growth. On the negative side, Petrofac was the main detractor from performance; the company released a short trading statement reiterating the expectation for "modest growth" in 2013.

In the second half of the year, the Fund marginally underperformed the index. Improving market sentiment was reflected in sector performance, as more cyclical stocks such as telecoms and technology outperformed while more defensive utilities and consumer staples lagged. The Fund's sector positioning marginally detracted from performance because of an underweight position in technology. Although stock selection in the industrial and financial sectors was particularly good and was the principle driver of the overall Fund return, holdings in consumer goods stocks offset some of those gains. Examples of stocks that contributed positively to performance were Howden Joinery, Resolution and Prudential.

In terms of activity, major purchases included: HSBC Holdings and BP Group.

Significant sales included: Diageo and AstraZeneca.

\*As the Fund has no official benchmark the indicative index is the FTSE All-Share index (for illustrative purposes only).

Please note that the above information refers to the past and that past performance is not a reliable indication of future returns.

## Distribution - Retail

Date paid/ payable	Distribution rate - Retail Income shares	Distribution rate - Retail Accumulation shares
15.3.14	0.930279p	1.496178p
15.3.13	0.723863p	1.131470p

## Distribution - Retail B

Date paid/ payable	Distribution rate - Retail Income shares	Distribution rate - Retail Accumulation shares
15.3.14	0.974324p	1.571025p
15.3.13	0.756292p	1.181001p

## Fund Prices

Share class	Net asset value per share as at 15.1.14	Net asset value per share as at 15.1.13
Retail Income	72.19p	64.16p
Retail Accumulation	116.5p	100.4p
Retail B Income	75.73p	66.89p
Retail B Accumulation	122.4p	104.8p

## Performance Record

### Percentage Change

#### 6 months

3.65

#### 1 year

16.04

#### 3 years

27.46

#### 5 years

94.65

#### 10 years

99.76

Please note that the above figures refer to the past and that past performance is not a reliable indication of future returns.

Performance is cumulative over the period indicated to 15 January 2014.

(Source: Morningstar Direct, GBP, UK net of tax, for the Retail Accumulation share class. Returns based on the NAV, which is a single price.)

## Portfolio Information

### Major Holdings

The Fund's five largest holdings, or holdings above 5%, at the end of this year and the previous year are shown below.

Holding	% of Fund value as at 15.1.14
+ HSBC Holdings (London listed)	5.57
Prudential	4.69
Vodafone Group	4.46
BG Group	4.41
Lloyds Banking Group	4.31
+related party	

Holding	% of Fund value as at 15.1.13
Standard Life Investments UK Equity Unconstrained Fund	7.59
BP	5.59
Treasury 4.5% 7/3/2013	4.17
+ HSBC Holdings (London Listed)	3.32
Barclays	3.12
+related party	

### Investment Allocation

	15.1.14 %	15.1.13 %
Financials	22.47	23.47
Consumer Services	14.14	11.31
Oil & Gas	12.26	12.53
Industrials	11.26	6.53
Consumer Goods	10.70	8.07
Telecommunications	10.66	3.79
Basic Materials	8.65	7.41
Healthcare	3.91	5.02
Utilities	3.46	2.05
Government Bonds	0.00	4.17
Corporate Bonds	0.00	0.03
Technology	0.00	1.13
Futures	0.00	0.46
Net other assets	2.49	14.03

# Income

## Investment Objective

To provide an above average yield together with capital growth by investing predominantly in the UK.

## Investment Policy

To invest mainly in UK equities and a range of convertible stocks.

## Investment Strategy

To provide an above average yield together with capital growth through active stock selection to create a portfolio of about 40 stocks. The stock selection process is based on quantitative and qualitative factors, with fundamental research being the most important aspect.

## Risk Profile

The Fund has little exposure to credit or cash flow risk. There are no borrowings or unlisted securities of a material nature and so there is little exposure to liquidity risk. The main risks it faces from its financial instruments are market price and foreign currency. The Manager reviews policies for managing these risks in order to follow and achieve the Investment Objective and Policy as summarised above.

## Fund Facts

*XD dates:* 16 January, 16 July  
*Distribution payment dates:*  
15 March, 15 September

## Ongoing Charges Figure (OCF)

As at 15.1.14 - 1.65%  
As at 15.1.13 - 1.67%

The OCFs shown above are calculated on the Retail Accumulation share class.

## Portfolio Activity

In the first half of the period under review, the Fund outperformed the FTSE All-Share index\*. Returns were driven at the stock level as a number of companies provided the market with positive corporate updates. In particular, Kingfisher's management continued to deliver on its agenda, which aims to maintain gross margins whilst noting that sales had increased following an improvement in weather conditions and consumer confidence. Meanwhile, Resolution's core UK business performed well over the period with the potential for an improvement in the value of their existing business and growth. On the negative side, Petrofac was the main detractor from performance; the company released a short trading statement reiterating the expectation for "modest growth" in 2013.

In the second half of the year, the Fund underperformed the index. Improving market sentiment was reflected in sector performance, as more cyclical stocks such as telecoms and technology outperformed while more defensive utilities and consumer staples lagged. The Fund's sector positioning marginally detracted from performance because of an underweight position in technology. Although stock selection in the industrial and financial sectors was particularly good and was the principal driver of the overall Fund return, holdings in consumer goods stocks offset some of those gains. Examples of stocks that contributed positively to performance were Howden Joinery, Resolution and Prudential.

In terms of activity, major purchases included: GlaxoSmithKline and AstraZeneca.

Significant sales included: BP and Barclays.

\*As the Fund has no official benchmark the indicative index is the FTSE All-Share index (for illustrative purposes only).

Please note that the above information refers to the past and that past performance is not a reliable indication of future returns.

## Distribution

Date paid/ payable	Distribution rate - Retail Income shares	Distribution rate - Retail Accumulation shares
15.3.14	5.362284p	8.968744p
15.3.13	4.936364p	7.934415p

## Fund Prices

Share class	Net asset value per share as at 15.1.14	Net asset value per share as at 15.1.13
Retail Income	337.9p	300.7p
Retail Accumulation	565.4p	483.5p



## Performance Record

### Percentage Change

#### 6 months

4.16

#### 1 year

16.94

#### 3 years

30.01

#### 5 years

99.65

#### 10 years

94.10

Please note that the above figures refer to the past and that past performance is not a reliable indication of future returns.

Performance is cumulative over the period indicated to 15 January 2014.

(Source: Morningstar Direct, GBP, UK net of tax, for the Retail Accumulation share class. Returns based on the NAV, which is a single price.)

## Portfolio Information

### Major Holdings

The Fund's five largest holdings, or holdings above 5%, at the end of this year and the previous year are shown below.

Holding	% of Fund value as at 15.1.14
Vodafone Group	6.36
Royal Dutch Shell A	6.27
BP	6.20
GlaxoSmithKline	5.85
+ HSBC Holdings (London listed)	5.75
+related party	

Holding	% of Fund value as at 15.1.13
Schroder Income	8.89
Royal Dutch Shell B	4.22
AstraZeneca	4.16
Vodafone Group	3.84
GlaxoSmithKline	3.76

### Investment Allocation

	15.1.14 %	15.1.13 %
Financials	19.86	25.40
Oil & Gas	14.19	10.83
Consumer Goods	11.53	14.59
Telecommunications	10.48	6.10
Consumer Services	10.42	9.56
Industrials	9.99	8.36
Healthcare	9.98	12.70
Basic Materials	6.83	7.03
Utilities	3.39	4.00
Technology	2.36	1.10
Corporate Preference	0.00	0.08
Net other assets	0.97	0.25

# Monthly Income

## Investment Objective

To provide a monthly income rising over time together with capital growth.

## Investment Policy

To invest predominantly in a combination of UK equities and fixed income securities.

## Investment Strategy

The long-term allocation target is 70% equities and 30% fixed income. The Fund invests in many of the higher-yielding equities in the UK market.

## Risk Profile

The Fund has little exposure to credit or cash flow risk. There are no borrowings or unlisted securities of a material nature and so there is little exposure to liquidity risk. The main risks it faces from its financial instruments are market price and foreign currency. The Manager reviews policies for managing these risks in order to follow and achieve the Investment Objective and Policy as summarised above.

## Fund Facts

*XD dates:* Monthly on the 16th  
*Distribution payment dates:* Monthly on the 15th

## Ongoing Charges Figure (OCF)

As at 15.1.14 - 1.40%  
As at 15.1.13 - 1.40%

The OCFs shown above are calculated on the Retail Accumulation share class.

## Portfolio Activity

In the first half of the period under review, the Fund gained positive returns but underperformed the FTSE All-Share index\*. The principal detractor was the Fund's exposure to Petrofac, which released a short trading statement reiterating the expectation for "modest growth" in 2013. On a positive note, returns were driven at the stock level with a number of companies providing the market with positive corporate updates. In particular, Kingfisher's management continued to deliver on its agenda, which aims to maintain gross margins whilst noting that sales had increased following an improvement in weather conditions and consumer confidence. Meanwhile, Resolution's core UK business performed well over the period with the potential for an improvement in the value of their existing business and growth.

In the second half of the year, the Fund also returned positively but underperformed the index. Improving market sentiment was reflected in sector performance, as more-cyclical stocks such as telecoms and technology outperformed while more-defensive utilities and consumer staples lagged. The Fund's sector positioning marginally detracted from performance because of an underweight position in technology. Although stock selection in the industrial and financial sectors was particularly good and was the principal driver of the overall Fund return, holdings in consumer goods stocks offset some of those gains. Examples of stocks that contributed positively to performance were Howden Joinery, Resolution and Prudential.

In terms of activity, major purchases included: Resolution and Roche.

Significant sales included: Royal Dutch Shell B and Diageo.

\*As the Fund has no official benchmark the indicative index is the FTSE All-Share index (for illustrative purposes only).

Please note that the above information refers to the past and that past performance is not a reliable indication of future returns.

## Distribution

Date paid/ payable	Distribution rate - Retail Income shares	Distribution rate - Retail Accumulation shares
15.2.14	0.757253p	1.169419p
15.2.13	1.188506p	1.806375p
15.1.14	0.430000p	0.730000p
15.1.13	0.370000p	0.610000p
15.12.13	0.430000p	0.730000p
15.12.12	0.370000p	0.610000p
15.11.13	0.410000p	0.700000p
15.11.12	0.390000p	0.640000p
15.10.13	0.450000p	0.770000p
15.10.12	0.390000p	0.690000p
15.9.13	0.450000p	0.770000p
15.9.12	0.420000p	0.700000p

## Fund Prices

Share class	Net asset value per share as at 15.1.14	Net asset value per share as at 15.1.13
Retail Income	146.6p	136.2p
Retail Accumulation	251.2p	223.8p

## Performance Record

### Percentage Change

#### 6 months

4.41

#### 1 year

12.24

#### 3 years

25.41

#### 5 years

75.05

#### 10 years

81.09

Please note that the above figures refer to the past and that past performance is not a reliable indication of future returns.

Performance is cumulative over the period indicated to 15 January 2014.

(Source: Morningstar Direct, GBP, UK net of tax, for the Retail Accumulation share class. Returns based on the NAV, which is a single price.)

## Portfolio Information

### Major Holdings

The Fund's five largest holdings, or holdings above 5%, at the end of this year and the previous year are shown below.

Holding	% of Fund value as at 15.1.14
Royal Dutch Shell A	4.62
Vodafone Group	4.61
+ HSBC Holdings (London listed)	4.37
BP	4.35
GlaxoSmithKline	4.12
+related party	

Holding	% of Fund value as at 15.1.13
+ HSBC Holdings (London listed)	5.40
BP	4.00
Royal Dutch Shell A	3.32
GlaxoSmithKline	3.09
Vodafone Group	2.94
+related party	

### Investment Allocation

	15.1.14 %	15.1.13 %
Corporate Bonds	27.91	21.71
Financials	14.70	15.22
Oil & Gas	10.07	12.22
Consumer Goods	8.12	10.06
Telecommunications	7.61	4.30
Industrials	7.40	6.03
Consumer Services	7.12	7.31
Healthcare	6.95	5.26
Basic Materials	4.63	7.89
Utilities	2.38	3.01
Technology	1.53	0.00
Government Bonds	0.38	3.80
Supernational Bonds	0.00	1.06
Other	0.29	1.31
Net other assets	0.91	0.82

# Gilt & Fixed Interest

## Investment Objective

To provide a regular and competitive level of income from an underlying portfolio of gilts and other highly-rated fixed interest securities.

## Investment Policy

To invest predominantly in British government stocks and other fixed interest stock whether issued in Great Britain or any other country in the world.

## Investment Strategy

The Gilt & Fixed Interest Fund invests in UK government securities and interest rate derivatives in order to achieve a better return than the market. This is achieved by changing the overall duration of the Fund and its yield curve positioning relative to the benchmark\*. It can also gain exposure to investment grade or high-yield credit through the use of credit default swaps.

## Risk Profile

The Fund has little exposure to credit or cash flow risk. There are no borrowings or unlisted securities of a material nature and so there is little exposure to liquidity risk. The main risks it faces from its financial instruments are market price and foreign currency. The Manager reviews policies for managing these risks in order to follow and achieve the Investment Objective and Policy as summarised above.

## Fund Facts

*XD dates:* 16 January, 16 April, 16 July, 16 October

*Distribution payment dates:* 15 March, 15 June, 15 September, 15 December

## Ongoing Charges Figure (OCF)

As at 15.1.14 - 0.90%

As at 15.1.13 - 0.90%

The OCFs shown above are calculated on the Retail Accumulation share class.

## Portfolio Activity

During 2013 the Fund held short duration positions on several occasions in response to the upward trend of UK government bond yields. The Fund started the year with a short duration position, which we temporarily closed in February. We re-established this again in March after UK gilts yields fell as a result of a decline in investor confidence because of the Cyprus banking crisis. We closed this short duration position at the end of the second quarter after a sharp rise in UK gilt yields. In the third quarter, the Fund re-established the short duration position and closed at the end of that quarter. The Fund maintained a largely neutral duration in quarter four.

The Fund held an overweight position in longer-dated UK gilts versus an underweight exposure to shorter-dated UK gilts in the first quarter of 2013. At the end of the second quarter, the Fund moved overweight in 5-year UK gilts and underweight in 10-year UK gilts. We replaced this strategy in quarter four with overweight positions in 5-year and 30-year UK gilts and an underweight position in 10-year UK gilts. At the start of quarter three, the Fund held a position in UK government inflation-linked bonds versus conventional gilts, which we closed shortly after. In the second half of 2013, the Fund held a small position in highly-rated corporate bonds.

In terms of activity, major purchases included: Treasury 4.25% 7/12/2027 and Treasury 1.25% Index Linked Gilt 22/11/2017.

Significant sales included: Treasury 5% 7/3/2025 and Treasury 4.75% 7/3/2018.

\*As the Fund has no official benchmark the indicative index is the FTSE Stocks index (for illustrative purposes only).

Please note that the above information refers to the past and that past performance is not a reliable indication of future returns.

## Distribution

Date paid/ payable	Distribution rate - Retail Income shares	Distribution rate - Retail Accumulation shares
15.3.14	0.318347p	1.855914p
15.3.13	0.337537p	1.936308p
15.12.13	0.330000p	1.900000p
15.12.12	0.350000p	2.000000p

## Fund Prices

Share class	Net asset value per share as at 15.1.14	Net asset value per share as at 15.1.13
Retail Income	65.95p	69.15p
Retail Accumulation	388.1p	399.2p

## Performance Record

### Percentage Change

#### 6 months

(1.40)

#### 1 year

(2.78)

#### 3 years

12.36

#### 5 years

13.15

#### 10 years

42.47

Figures in brackets denote negative figures.

Please note that the above figures refer to the past and that past performance is not a reliable indication of future returns.

Performance is cumulative over the period indicated to 15 January 2014.

(Source: Morningstar Direct, GBP, UK net of tax, for the Retail Accumulation share class. Returns based on the NAV, which is a single price.)

## Portfolio Information

### Major Holdings

The Fund's five largest holdings, or holdings above 5%, at the end of this year and the previous year are shown below.

Holding	% of Fund value as at 15.1.14
Treasury 4% 7/9/2016	13.79
Treasury 5% 7/3/2018	10.11
Treasury 1.75% 22/1/2017	9.48
Treasury 1.75% 7/9/2022	7.47
Treasury 4.75% 7/3/2020	6.62
Treasury 4.25% 7/12/2046	6.17
Treasury 2.75% 22/1/2015	5.54
Treasury 4.25% 7/6/2032	5.53
Treasury 4.25% 7/9/2039	5.20
Treasury 4.25% 7/3/2036	5.02

Holding	% of Fund value as at 15.1.13
Treasury 5% 7/3/2018	10.23
Treasury 4% 7/9/2016	8.36
Treasury 2.75% 22/1/2015	7.53
Treasury 4.75% 7/12/2030	7.30
Treasury 1.75% 22/1/2017	6.06
*+HSBC Sterling Liquidity Fund	5.99
Treasury 4.75% 7/3/2020	5.76
Treasury 4.75% 7/12/2038	5.49
Treasury 4.25% 7/3/2036	5.19
Treasury 4.5% 7/3/2013	5.01

\*offshore fund  
+related party

### Investment Allocation

	15.1.14 %	15.1.13 %
Government Bonds	93.81	92.95
Corporate Bonds	4.17	0.00
Money Market	2.48	5.99
Net other (liabilities)/ assets	(0.46)	1.06

# Corporate Bond

## Investment Objective

To provide a regular and competitive level of income from an underlying portfolio of predominantly sterling corporate bonds.

## Investment Policy

To invest predominantly in corporate bonds and other fixed interest securities.

## Investment Strategy

The Corporate Bond Fund invests primarily in investment grade corporate bonds (but also can take exposure in sub investment grade bonds) in order to achieve a better return than the market. The Fund invests in a variety of fixed income securities including, but not limited to, fixed and floating rate securities, senior and subordinated securities, bullet, callable and perpetual securities denominated or hedged back into sterling. In addition, the Fund uses derivatives, both interest rate and credit, to achieve its aim.

The Investment Objective is achieved by changing the overall position of the Fund against its benchmark in respect to duration, yield curve and credit exposure.

## Risk Profile

The Fund has little exposure to credit or cash flow risk. There are no borrowings or unlisted securities of a material nature and so there is little exposure to liquidity risk. The main risks it faces from its financial instruments are market price and foreign currency. The Manager reviews policies for managing these risks in order to follow and achieve the Investment Objective and Policy as summarised above.

## Fund Facts

*XD dates:* 16 January, 16 April, 16 July, 16 October  
*Distribution payment dates:* 15 March, 15 June, 15 September, 15 December

## Ongoing Charges Figure (OCF)

As at 15.1.14 - 1.15%

As at 15.1.13 - 1.15%

The OCFs shown above are calculated on the Retail Accumulation share class.

## Portfolio Activity

During the first half of 2013, the Fund maintained a slightly defensive position. At the end of quarter three, we became more positive and maintained this view to the end of 2013. In terms of duration exposure, the Fund maintained a largely neutral duration throughout 2013.

In terms of sector positioning, the Fund remained overweight in basic resources and industrials, and underweight in financials and utilities. The underweight stance towards financials was slightly reduced in quarter four.

Our approach to issuer selection was driven by fundamental and valuation analysis. The Fund focused on selecting robust corporates with liquid balance sheets and stable cash flows with a preference for quality, rather than speculative cyclical names. The Fund held an off-benchmark\* position in other lower-risk fixed income instruments from the start of 2013 until the fourth quarter.

The Fund maintained an overweight position in AAA- and AA- rated securities, and held BB- and B- rated securities versus an underweight exposure to A- rated bonds. We reduced the overweight in AAA- and AA- issues in the second half of the year as the Fund lowered the underweight position in A- rated issues and increased the exposure to BB- and B- rated securities.

In terms of Fund positioning, we held an overweight position in 5- to 10-year maturities versus an underweight exposure to maturities over 10 years as we expected shorter-dated bonds to outperform.

In terms of activity, major purchases included: Treasury 4.25% 7/6/2032 and Treasury 4.75% 7/12/2038.

Significant sales included: Treasury 4.25% 7/6/2032 and EIB 5.625% 7/6/2032.

\*As the Fund has no official benchmark the indicative index is the iBoxx £ Non Gilt index (for illustrative purposes only).

Please note that the above information refers to the past and that past performance is not a reliable indication of future returns.

## Distribution

Date paid/ payable	Distribution rate - Retail Income shares	Distribution rate - Retail Accumulation shares
15.3.14	0.871472p	1.748760p
15.3.13	0.853045p	1.676285p
15.12.13	0.860000p	1.720000p
15.12.12	0.880000p	1.700000p

## Fund Prices

Share class	Net asset value per share as at 15.1.14	Net asset value per share as at 15.1.13
Retail Income	112.3p	113.9p
Retail Accumulation	226.7p	223.0p

## Performance Record

### Percentage Change

#### 6 months

2.95

#### 1 year

1.66

#### 3 years

22.01

#### 5 years

36.57

#### 10 years

39.34

Please note that the above figures refer to the past and that past performance is not a reliable indication of future returns.

Performance is cumulative over the period indicated to 15 January 2014.

(Source: Morningstar Direct, GBP, UK net of tax, for the Retail Accumulation share class. Returns based on the NAV, which is a single price.)

## Portfolio Information

### Major Holdings

The Fund's five largest holdings, or holdings above 5%, at the end of this year and the previous year are shown below.

Holding	% of Fund value as at 15.1.14
+ HSBC 6.375% variable rate 18/10/2022	2.76
Annington Repack 5.3236% 10/1/2023	1.92
Barclays Bank 6.75% variable rate 16/1/2023	1.62
BHP Billiton Finance 3.25% 25/9/2024	1.60
GE Capital UK Funding 4.125% 13/9/2023	1.53
+related party	

Holding	% of Fund value as at 15.1.13
European Investment Bank 5.625% 7/6/2032	2.75
+ HSBC 6.375% 18/10/2022 step perpetual	2.57
Network Rail 4.75% 29/11/2035	2.42
Annington Repack 5.3236% 10/1/2023	1.83
BHP Billiton Finance 3.25% 25/9/2024	1.54
+related party	

### Investment Allocation

	15.1.14	15.1.13
	%	%
Corporate Bonds	95.23	94.04
Government Bonds	3.31	0.97
Corporate Preference	0.34	0.00
Credit Default Swaps	0.02	0.00
Supernational Bonds	0.00	4.24
Financials	0.00	0.81
Forward Foreign Exchange Contracts	(0.05)	(0.03)
Net other assets/(liabilities)	1.15	(0.03)

## Corporate Shareholders

A corporate shareholder will receive the distribution shown below on their annual consolidated tax voucher as follows:

Fund	Date payable/paid	Share class	Investment income	
			Franked	Unfranked
Corporate Bond	15.3.14	Retail Income	0.00%	100.00%
	15.3.14	Retail Accumulation	0.00%	100.00%
	15.3.14	Institutional Income	0.00%	100.00%
	15.3.14	Institutional Accumulation	0.00%	100.00%
	15.3.14	Income C	0.00%	100.00%
	15.3.14	Accumulation C	0.00%	100.00%
	15.12.13	Retail Income	0.00%	100.00%
	15.12.13	Retail Accumulation	0.00%	100.00%
	15.12.13	Institutional Income	0.00%	100.00%
	15.12.13	Institutional Accumulation	0.00%	100.00%
	15.12.13	Income C	0.00%	100.00%
	15.12.13	Accumulation C	0.00%	100.00%
Gilt & Fixed Interest	15.3.14	Retail Income	0.00%	100.00%
	15.3.14	Retail Accumulation	0.00%	100.00%
	15.3.14	Institutional Income	0.00%	100.00%
	15.3.14	Income C	0.00%	100.00%
	15.3.14	Accumulation C	0.00%	100.00%
	15.12.13	Retail Income	0.00%	100.00%
	15.12.13	Retail Accumulation	0.00%	100.00%
	15.12.13	Institutional Income	0.00%	100.00%
	15.12.13	Income C	0.00%	100.00%
	15.12.13	Accumulation C	0.00%	100.00%

All other Funds in this OEIC have a 100% franked distribution shown on their annual consolidated tax voucher.



## Risk and Reward Profile

Fund	Rating*
Balanced	5
UK Growth & Income	6
Income	5†
Monthly Income	5
Gilt & Fixed Interest	4
Corporate Bond	4

**Lower risk** **Higher risk**

← →

Typically lower rewards Typically higher rewards

1	2	3	4	5	6	7
---	---	---	---	---	---	---

† The previous risk rating for this Fund was 6, up until 11 March 2014.

### \*More About this Rating

The rating is based on price volatility over the last five years, and is an indicator of absolute risk. Historical data may not be a reliable indication for the future. The rating is not guaranteed to remain unchanged and the categorisation may shift over time. The lowest rating does not mean a risk-free investment.

For further information about the specific risks applicable for each Fund, please visit [www.assetmanagement.hsbc.com/uk](http://www.assetmanagement.hsbc.com/uk).

## General Information

### Published Prices

The prices of shares are updated daily on the following websites:

[www.assetmanagement.hsbc.com/uk](http://www.assetmanagement.hsbc.com/uk) and [www.investinginfunds.org/ways-to-buy-and-sell-funds.html](http://www.investinginfunds.org/ways-to-buy-and-sell-funds.html)

Alternatively you can call our Investments Helpline on 0845 745 6123\* (Textphone 0845 766 0391).

\*To help us continually improve our service, and in the interests of security, we may monitor and/or record your communications with us. Lines are open Monday to Friday from 8am to 6pm, excluding public holidays.

---

### Report and Accounts

The Authorised Corporate Director (ACD) is HSBC Global Asset Management (UK) Limited which is the sole director. HSBC Global Asset Management (UK) Limited is authorised and regulated by the Financial Conduct Authority.

---

### HSBC Global Asset Management (UK) Limited - Directors

S. Chandrasekharan

C.S. Cheetham

A. Clark

A.C. Corfield

J. Ellerby

E.R. Stokes

---

## Quick Reference Guide to HSBC Investment Funds

Name of OEIC Fund	Balanced	UK Growth & Income	Income	Monthly Income	Gilt & Fixed Interest	Corporate Bond
Number of distributions per year	2	2	2	12	4	4
Distribution dates	15 Mar 15 Sep	15 Mar 15 Sep	15 Mar 15 Sep	Each month	15 Mar, Jun, Sep, Dec	15 Mar, Jun, Sep, Dec
Lump sum minimum investment level	£1,000	£1,000	£1,000	£1,000	£1,000	£1,000
Regular saver minimum investment level	£50	£50	£50	£50	£50	£50
Authorised Corporate Director charge % †	1.50	1.50	1.50	1.25	0.75	1.00
Available as an ISA	Yes	Yes	Yes	Yes	Yes	Yes
In ISA can income be paid	Yes	Yes	Yes	Yes	Yes	Yes
Income shares available	Yes	Yes	Yes	Yes	Yes	Yes
Accumulation shares available	Yes	Yes	Yes	Yes	Yes	Yes
Historic research of files*	£25 per hour including VAT - all Funds					
Duplicate tax voucher*	£25 per voucher including VAT - all Funds					
Duplicate tax vouchers* (more than one)	£25 per voucher including VAT - all Funds					
European Savings Directive in scope for distributions/redemptions	Yes/No	No/No	No/No	Yes/Yes	Yes/Yes	Yes/Yes

\* Charges for additional services. The ACD reserves the right to apply these charges and amend them subject to the annual rate of the Retail Price Index.

† The above information relates only to retail share classes. Other share classes may differ.

Issued by HSBC Global Asset Management (UK) Limited.  
Authorised and regulated by the Financial Conduct Authority.

A member of the HSBC Group, one of the world's largest  
banking and financial services organisations with around  
6,600 offices in 80 countries and territories.

---

**[www.assetmanagement.hsbc.com/uk](http://www.assetmanagement.hsbc.com/uk)**

---

HSBC Global Asset Management (UK) Limited  
Frobisher House  
Nelson Gate  
Commercial Road  
Southampton SO15 9DF  
United Kingdom

---