HSBC World Selection® Portfolio
Quarterly Report – Q4 2018

Date: January 2019

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HSBC

Executive summary

Market update

- Global equity markets fell sharply in late 2018. Market sentiment was poor throughout the year, particularly in the fourth quarter. Global equity markets fell sharply as fears of an economic slowdown, global trade tensions and rising short-term interest rates concerned investors.
- Canadian equities, as measured by the S&P/TSX Composite Index, declined in the fourth quarter by 10.1% and finished the year down 8.9%. US equities generally underperformed international equities for the fourth quarter but outperformed on a full-year basis. The S&P 500 Index declined by 8.6% in the fourth quarter but posted positive gains over 2018 at 4.2%. Elsewhere, the MSCI Europe, Australasia and Far East Index returned -7.6% in the fourth quarter and -6.0% over 2018. Emerging markets, as measured by the MSCI Emerging Markets Index, also declined in both the fourth quarter and the year, returning -2.2% and -6.9% respectively. All returns are in Canadian-dollar terms.
- In Canada, the economy has been performing quite well with a strong employment situation and rising corporate profitability. This has been offset somewhat by significant weakness in the energy sector and moderating housing activity.
- The pace of growth in the US moderated over the course of 2018, but it still remains above that of the eurozone and Japan. Growth in emerging economies has also slowed.
- Over 2018, there were four 25 basis point rate hikes in the US and three in Canada. The weak fourth quarter in financial markets and commodities, combined with moderating growth, will very likely slow the pace of hikes in both Canada and the US in 2019.

Source: HSBC Global Asset Management (Canada) Limited as at December 31, 2018. Past performance is not an indication of future returns.

Portfolio positioning and rationale

- In the fourth quarter, using the HSBC World Selection Portfolio Balanced Portfolio as a proxy, we increased our exposure to the HSBC Canadian Equity Pooled Fund and HSBC Canadian Dividend Pooled Fund, and decreased our exposure to the HSBC Canadian Money Market Pooled Fund, HSBC Canadian Bond Pooled Fund and HSBC Mortgage Pooled Fund. We also trimmed our position in the HSBC Global Inflation Linked Bond Pooled Fund to neutral. We maintain a modest overweight position in equities and an offsetting modest underweight stance in bonds for World Selection portfolios.

Economic outlook

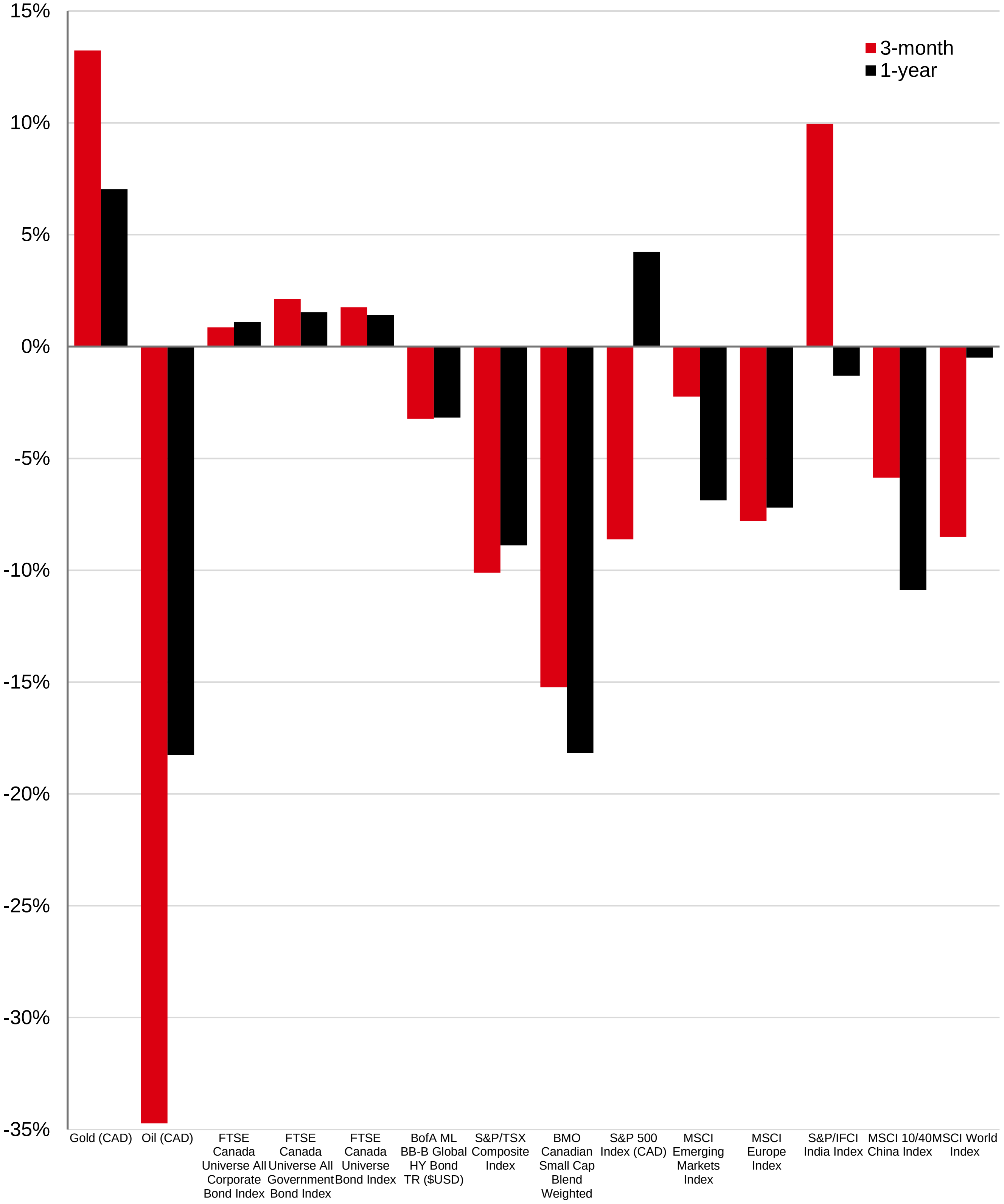
- In 2019, the US economy is likely to moderate to a more normal pace of growth, as fiscal stimulus begins to fade and the economy reacts to the US Federal Reserve's gradual monetary tightening. However, US economic performance remains solid, the risk of recession is modest and corporate fundamentals continue to be strong. The second engine of global growth in 2019, China, has loosened policy in recent months, and this should eventually filter through to the real economy, and subsequently pass through to global activity.
- Overall, we believe the latest market volatility represents an opportunity for equities. Current valuations suggest that the best way to "back growth" remains through equities. We feel that economic recession fears in the near term are likely overdone. Some key risks remain, including continued US/China trade tensions and an upside surprise to inflation that may lead to higher US short-term interest rates.
- Within fixed income, government bonds have not been a great diversifier in 2018. The economic environment remains unfavourable for government bonds as inflationary pressures persist. Corporate bond valuations have improved and corporate and macro fundamentals are supportive.
- Emerging markets held up relatively well in Q4 2018, implying that a significant degree of "bad news" had already been priced in. This supports the view that emerging market equities have the potential to perform well in 2019. Selectivity remains key within these markets.
- It is important to remember that although recent volatility may feel sudden and extreme, we believe this represents a return to a more typical market environment following an unusually calm 2017. Periods of episodic volatility may be likely this year, as investors adjust to a new stage of the business cycle amid the fading impact of US stimulus and central banks easing back from ultra-loose policy stances. Geopolitical risks also remain high and unpredictable.

Market performance review

- Market sentiment was very poor in 2018; this was particularly true in the fourth quarter, with fears of an economic slowdown, global trade tensions and rising short-term interest rates all concerning investors. From a Canadian perspective, with the exception of the US, equities were down overall for 2018, despite supportive fundamentals.
- Domestically, the broad market as measured by the S&P/TSX Composite Index decreased by 8.9% in 2018. From a Canadian investor's point of view, the MSCI Europe, Australasia and the Far East Index lost 7.5% in the fourth quarter and 6.0% for 2018. Although the MSCI Emerging Markets Index held up slightly better in the fourth quarter, it still posted a loss of 2.2%, finishing the year with a -6.9% return.
- Meanwhile, domestic bond returns were positive in the fourth quarter of 2018, with the FTSE Canada Universe Bond Index returning 1.8%, and returning 1.4% for the year as a whole.

Source: HSBC Global Asset Management (Canada) Limited as at December 31, 2018. Past performance is not an indication of future returns.

Index returns, as at December 31, 2018



Sources: Bloomberg, FTSE Global Debt Capital Markets Inc., MSCI and the Bank of Canada as at December 31, 2018.
All returns in Canadian dollars, except where specified. Past performance is not indicative of future performance.
All are gross returns, except the S&P/IFCI India Index, which is net return.
One-year performance: December 31, 2017 to December 31, 2018.

Asset-class positioning and strategy, as at December 31, 2018

Asset class	Strategy	Views
Fixed income	**Underweight:** Canadian bonds, global high yield	**Rationale:** Within fixed income, we continue to support an allocation to mortgages and emerging market debt, rather than government and high-yield bonds, to maintain a shorter duration.
	Neutral: Global inflation-linked bonds	
	Overweight: Mortgages, emerging market debt	**Positive factors to consider:** Emerging markets may benefit from currency appreciation and a slower tightening cycle in the US in 2019. Mortgages also continue to offer decent yields at a lower duration than domestic government bonds.
Equities	**Underweight:** US equities, other/properties	**Positive factors:** The sharp drop in global equity markets in 2018 – despite indicators suggesting that we are not yet at the end of the cycle and amidst very strong earnings growth – has enhanced the attractiveness of prospective equity returns.
	Overweight: Canadian equities, international equities, emerging market equities	**Risks to consider:** Periods of episodic volatility may be likely this year, as investors adjust to a new stage of the business cycle amid a fading impact of US stimulus and central banks easing back from ultra-loose policy stances. Geopolitical risks also remain high and unpredictable.

Performance for the period ending December 31, 2018

Using the HSBC World Selection Portfolio Balanced Portfolio as a proxy, both stock selection and asset mix allocation were negative this quarter.

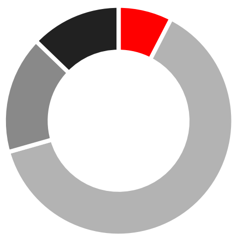
Annualized returns	YTD	3 months[1]	1 year	3 years[2]	5 years[2]	10 years[2]	Since inception[3]
Conservative	-1.36%	-2.12%	-1.36%	3.98%	4.45%	5.82%	5.41%
Moderate Conservative	-2.07%	-3.20%	-2.07%	4.36%	5.06%	6.44%	5.72%
Balanced	-3.55%	-5.21%	-3.55%	5.12%	5.97%	7.81%	6.41%
Growth	-4.31%	-6.57%	-4.31%	5.70%	6.87%	8.93%	6.93%
Aggressive Growth	-4.60%	-7.58%	-4.60%	6.09%	7.78%	9.65%	6.92%

Source: HSBC Global Asset Management (Canada) Limited, as at December 31, 2018.
[1] Not annualized.
[2] Annualized rate of return.
[3] Annualized rate of return. The since inception performance returns are calculated using unit values from the first month-end date that each fund was in operation.
Performance returns do not include investment management fees.
Past performance is not indicative of future performance. Please refer to the disclaimer about performance returns at the end of the document.
All returns are displayed in Canadian dollars.

Strategic and current tactical allocations, as at December 31, 2018

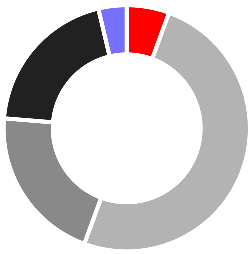
Current asset allocation		Strategic ranges

Conservative Portfolio



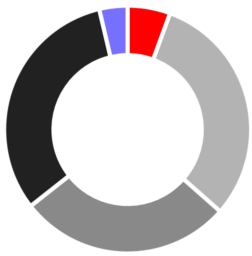
Asset class	Current asset allocation	Strategic ranges
Cash:	7.2%	0%-17%
Fixed Income:	65.2%	55%-75%
Canadian Equity:	15.6%	7%-27%
Foreign Equity:	12.0%	1%-21%
Other:	0.0%	0%-10%

Moderate Conservative Portfolio



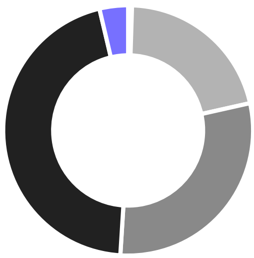
Asset class	Current asset allocation	Strategic ranges
Cash:	5.3%	0%-15%
Fixed Income:	52.4%	42%-62%
Canadian Equity:	19.5%	11%-31%
Foreign Equity:	19.1%	7%-27%
Other:	3.7%	0%-10%

Balanced Portfolio



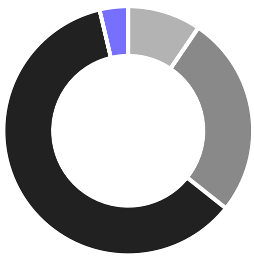
Asset class	Current asset allocation	Strategic ranges
Cash:	5.4%	0%-15%
Fixed Income:	33.1%	23%-43%
Canadian Equity:	26.8%	18.5%-38.5%
Foreign Equity:	31.0%	18.5%-38.5%
Other:	3.7%	0%-10%

Growth Portfolio



Asset class	Current asset allocation	Strategic ranges
Cash:	0.2%	0%-10%
Fixed Income:	23.0%	14%-34%
Canadian Equity:	28.3%	18%-38%
Foreign Equity:	44.8%	33%-53%
Other:	3.7%	0%-10%

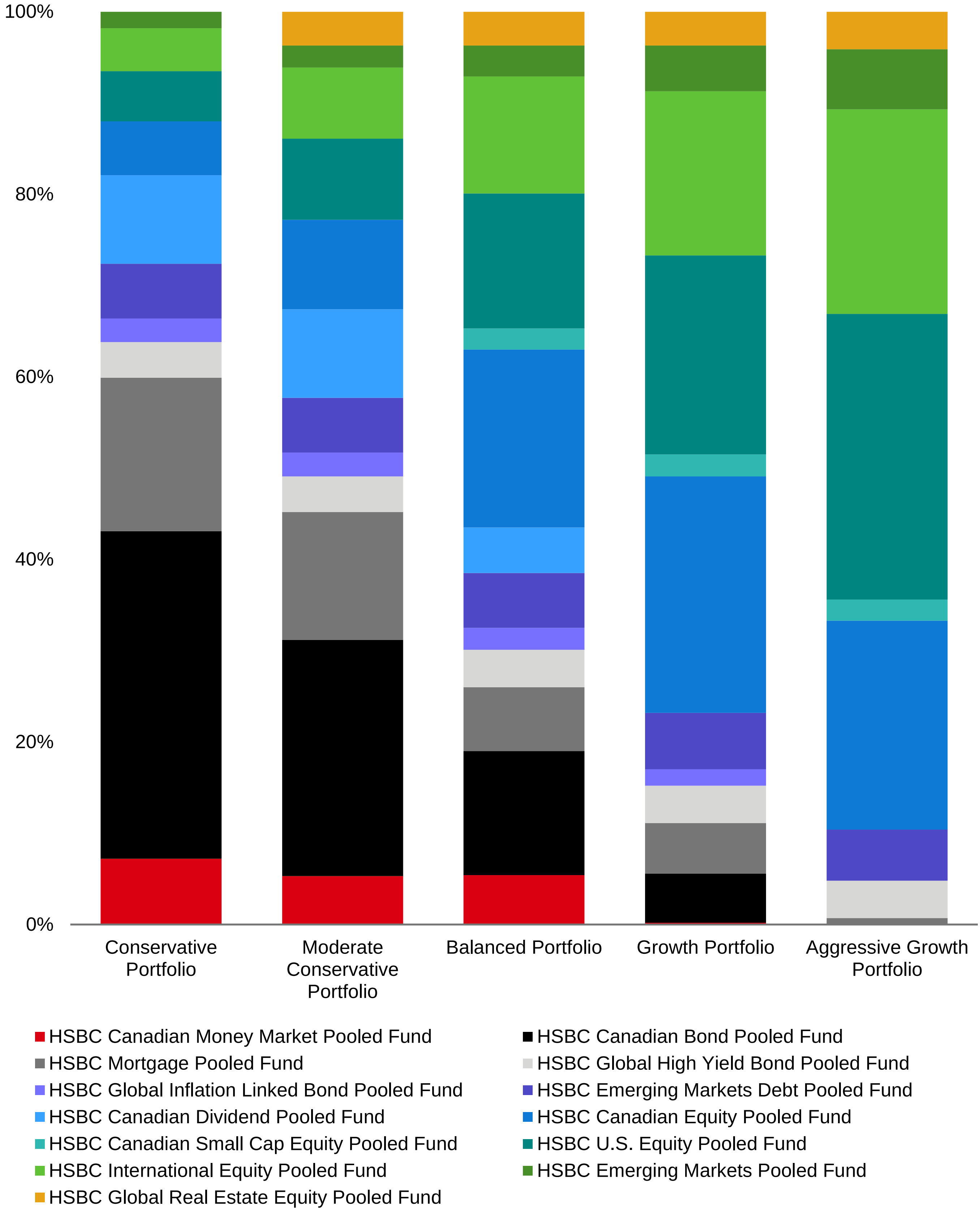
Aggressive Growth Portfolio



Asset class	Current asset allocation	Strategic ranges
Cash:	0.0%	0%-10%
Fixed Income:	10.4%	0%-18%
Canadian Equity:	25.2%	17%-37%
Foreign Equity:	60.3%	50%-70%
Other:	4.1%	0%-10%

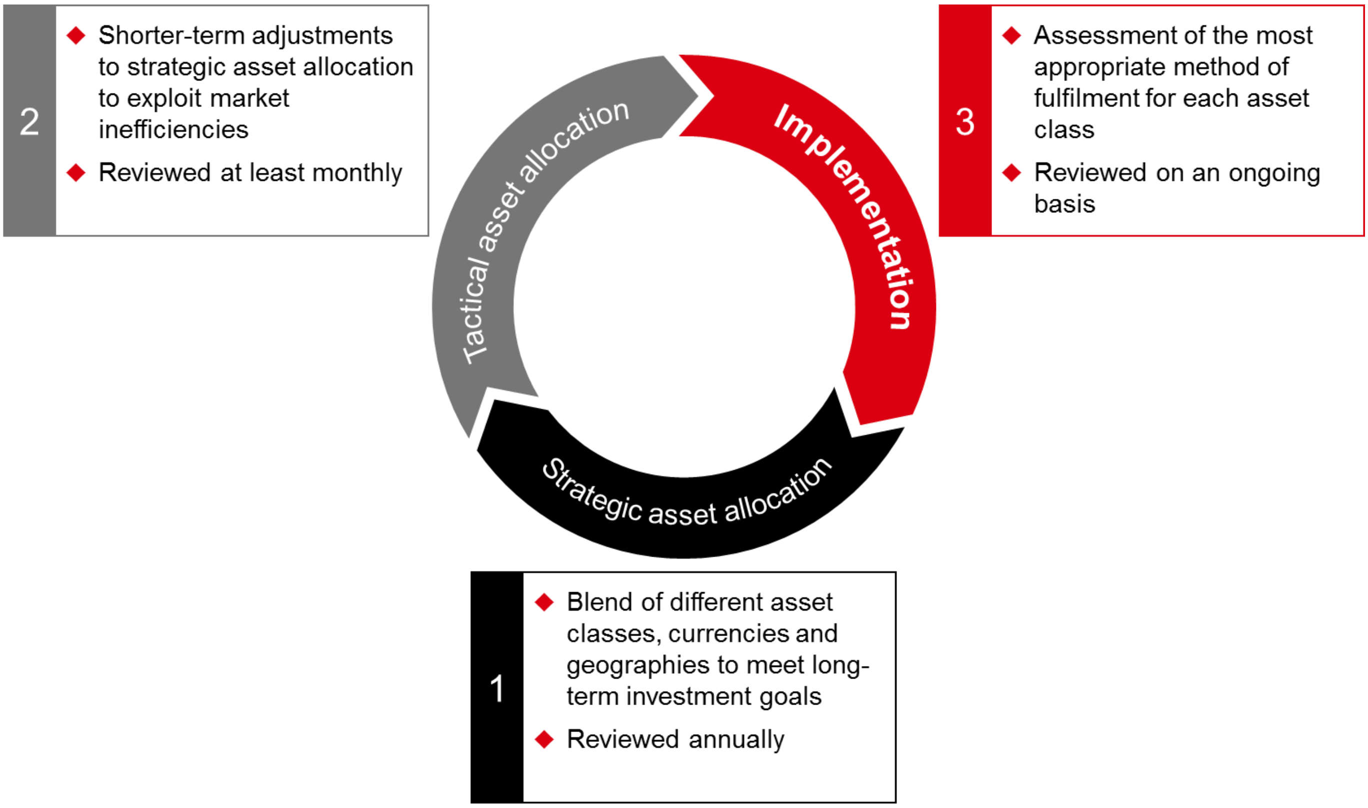
Source: HSBC Global Asset Management (Canada) Limited, as at December 31, 2018.

Detailed asset allocation, as at December 31, 2018



Source: HSBC Global Asset Management (Canada) Limited, as at December 31, 2018.

Three-step investment process to a diversified portfolio



Source: HSBC Global Asset Management (Canada) Limited, as at September 30, 2018.

Strategic Asset Allocation

- Strategic Asset Allocation (SAA) is a long-term portfolio positioning strategy to deliver optimal risk-adjusted returns for a given risk budget. To construct SAA, the investment team uses forward-looking returns for various asset classes, as well as volatility and correlation data, and simulates portfolio behaviour in various scenarios.
- Identifying the most appropriate mix of asset classes for each World Selection Portfolio's risk budget is the most important step in the portfolio construction process, as SAA is the main contributor to superior long-term risk-adjusted performance.

Tactical Asset Allocation

- The investment team also exploits shorter-term market opportunities to the benefit of our customers. Our shorter-term views (six to 12 months) are expressed in deviations of the actual portfolio weights from the SAA weights. For example, we may decide to increase our actual allocation to an asset class relative to the SAA weight and decrease the allocation for another asset class.
- To form our views and identify opportunities, we consider a number of factors, including the overall economic picture, market expectations, security valuations, etc.
- The investment team meets on a monthly basis (and more often if required) to discuss, review and adjust portfolio positions.

Important Information

HSBC Global Asset Management (Canada) Limited ("AMCA") is a wholly owned subsidiary of, but separate entity from, HSBC Bank Canada and provides its services in all provinces of Canada except Prince Edward Island.

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HSBC World Selection® Portfolio is a portfolio investment service offered by HIFC. In this service, a client's assets are invested in model portfolios. Each model portfolio is comprised of investments in HSBC Pooled Funds, which are mutual funds managed by AMCA and distributed by HIFC. AMCA provides discretionary investment management services to the portfolios in the HSBC World Selection Portfolio service. Commissions, trailing commissions, management fees, investment management fees and expenses all may be associated with investments in the HSBC Pooled Funds and/or the HSBC World Selection Portfolio service. Please read the applicable account opening documentation associated with HSBC World Selection Portfolio, the prospectus, Fund Facts, and other disclosure documents of the HSBC Pooled Funds in which investment may be made under HSBC World Selection Portfolio service before applying for the HSBC World Selection Portfolio service. The HSBC World Selection Portfolio service and the HSBC Pooled Funds are not guaranteed or covered by the Canada Deposit Insurance Corporation, HSBC Bank Canada, or any other deposit insurer or financial institution. For money market funds, there can be no assurances that the fund will be able to maintain its net asset value per security at a constant amount or that the full amount of your investment in the fund will be returned to you. The net asset values of all mutual funds, including the HSBC Pooled Funds, may change frequently and any past performance may not be repeated.

The performance data of the HSBC World Selection Portfolio service model portfolios ("Portfolios") is provided for information purposes only. Performance information is based on the performance of our standard Portfolios and not on a composite of actual client accounts. Past performance of the Portfolios is not indicative of future returns for the Portfolios or for actual client accounts. The returns are based on the historical annual compounded total returns of the HSBC Pooled Funds including changes in unit value and reinvestment of all distributions and does not take into account sales, redemptions, distributions or optional charges, or income taxes payable by any unit holder in respect of a HSBC Pooled Fund that would have reduced returns. Any compounded rates of returns used are intended to only illustrate the effects of the compound growth rate and are not intended to reflect the future values of the HSBC Pooled Funds or of the Portfolios or returns on investment.

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All data is at September 30, 2018 and has been provided by AMCA unless stated otherwise.

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Expiry Date: June 30, 2019