HSBC World Selection® Portfolio

Quarterly Report – April 2020

HSBC

Summary

- In the first quarter of 2020, investors experienced all-time highs in US and global equities and then the fastest bear market ever, set off by the rapid worldwide spread of COVID-19. This left investor psychology caught between the two camps of economic concern and optimism from central bank monetary and government fiscal policy actions.
- Within equities, US and international equity declines were somewhat buffered by a weaker Canadian dollar.
- Overall, the World Selection Portfolios were down in the quarter, the Conservative Portfolio falling the least, as fixed income continued to provide diversification to portfolios.
- Over the first quarter of 2020, the overall portfolio allocation to fixed income increased as equity markets declined. We have cautiously rebalanced the portfolio over the quarter.
- Looking ahead, in early April, the combination of monetary and fiscal initiatives seems to have reduced investor anxiety and equity markets have recovered somewhat. Further, once the global health crisis becomes contained and economic activity begins to resume, the dramatic stimulus measures in place will aim to accelerate a rebound in economic activity.
- In the near term, we believe economic data will be dire, but a reversal should begin later in 2020 or early in 2021.

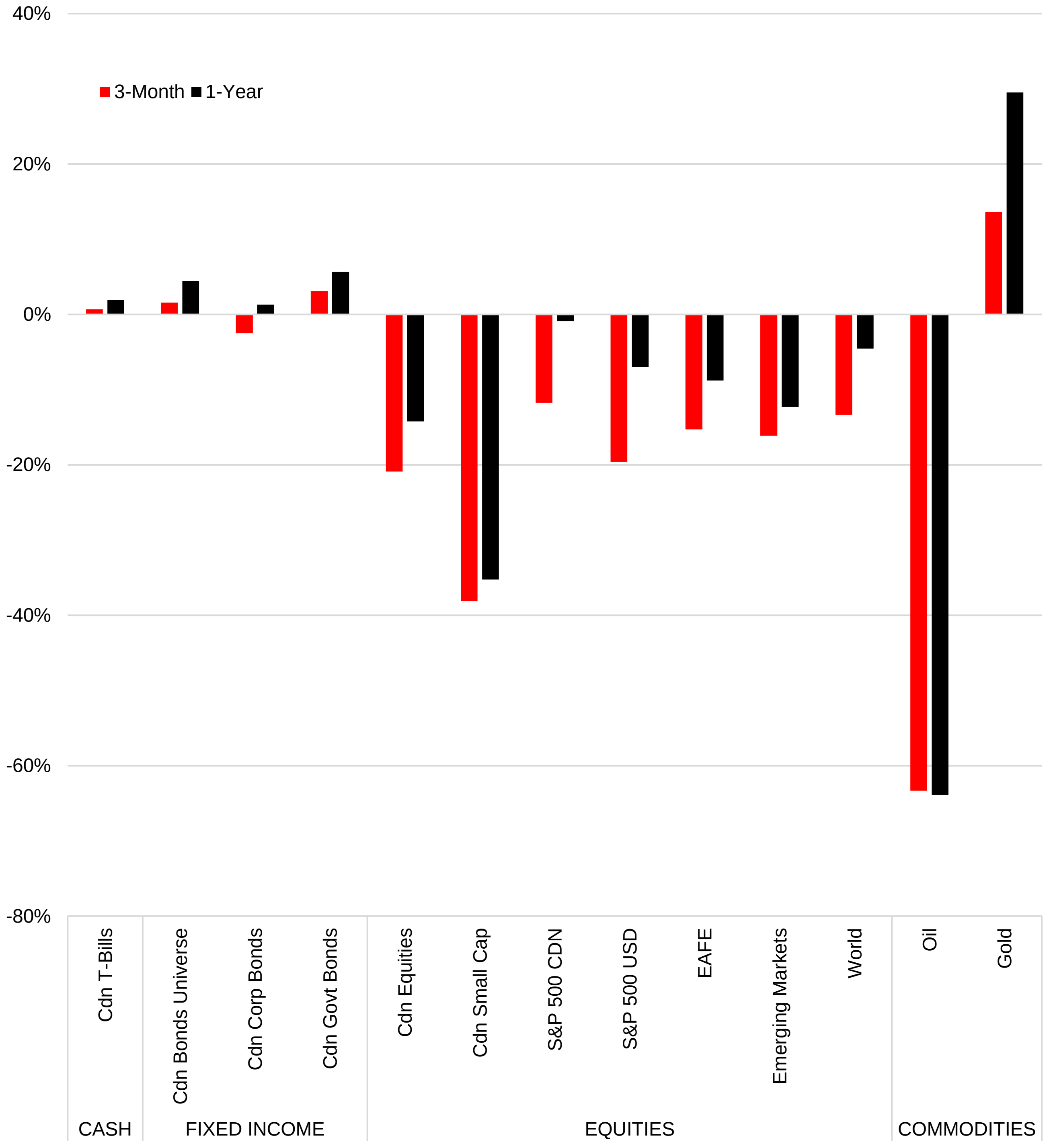
Market Update

- 2020 has been off to a historic start as the worldwide spread of COVID-19 created unprecedented volatility in financial markets. While we entered the year with many political uncertainties – including the US election, Brexit and global trade tensions – we did not expect a health crisis to cause a global economic slowdown.
- Rapidly over the first quarter, signs suggested that the spread of the COVID-19 virus was hitting global economic activity on both the supply and demand side. Policymakers worldwide were quick to offer direct assistance to businesses, support household incomes, help stabilize overall demand, and minimize the general supply impact.
- Canada and other G20 countries pledged US$5 trillion in economic stimulus to combat the COVID-19 crisis. The G20 is also committed to supporting vulnerable countries with weak health-care systems. In Canada, the federal government committed to a range of economic supports as part of a $107 billion COVID-19 economic response plan. This support represents roughly 10% of Canada's GDP. The plan will provide up to $52 billion in direct support to Canadian workers and businesses, plus $55 billion to meet the liquidity needs of Canadian businesses and households through tax deferrals.
- On March 27, the Bank of Canada lowered its target for the overnight rate by 50 basis points (bp) to 0.25%. This unscheduled rate decision was the third 50-bp rate cut in March. This level represents the Bank's idea of the "effective lower bound". We do not expect the Bank of Canada to cut its overnight rate into negative territory.
- These new policy objectives have cut across monetary, fiscal and regulatory tools, which in normal times are typically seen as serving distinct roles. The combination of all these initiatives has reduced investor anxiety and equity markets recovered somewhat in early April. Further, once the global health crisis becomes contained and economic activity begins to resume, the dramatic stimulus in place will aim to accelerate a rebound in economic activity.
- In the near term, we believe economic data will be dire, but a reversal should begin later in 2020 or early in 2021.

Market Performance

- The first quarter was challenging for capital markets. For the Canadian investor, US equities (as measured by the S&P 500 Index) fell by 11.8% over the quarter. International equities, as measured by the MSCI EAFE (Europe, Australasia and the Far East) Net Equity Index, dropped 15.3% and emerging markets (as measured by the MSCI Emerging Markets (Net) Index) fell 16.1%.
- These returns were buffered by a weaker Canadian dollar, which declined approximately 9% in the first quarter compared to the US dollar.
- Canadian equities, as measured by the S&P/TSX Capped Composite Index, returned -20.9% in the first quarter of 2020, with all sectors declining.
- Traditional safe havens, including government bonds, rallied. The yield on the 10-year Canada benchmark bond decreased 100 bp to 0.7%, an all-time low. This equated to an approximate 10% price increase. However, the broad domestic bond market (as measured by the FTSE Canada Universe Bond Index) gained only 1.6% as non-federal issues declined in value during this period of risk aversion.
- Oil prices were down signicantly year-to-date, as a result of reduced demand and a supply dispute amongst major oil producing nations. West Texas Intermediate plummeted 66% to roughly US $20 per barrel.

Index Returns, as at March 31, 2020



Sources: RIMES and Bloomberg Canada as at March 31, 2020.

All returns in Canadian dollars, except where specified. Past performance is not indicative of future performance.

All returns are gross. For illustrative purposes only.

One-year performance: March 31, 2019, to March 31, 2020.

Indices represented are: FTSE Canada 91 Day T-Bill Index (Cdn T-Bills), FTSE Canada Universe Bond Universe Index (CAD) (Cdn Bonds Universe), FTSE Canada Universe All Corporate Bond Index (Cdn Corp Bonds), FTSE Canada Universe All Government Bond Index (Cdn Govt Bonds), S&P/TSX Capped Composite Index (CAD) (Cdn Equities), S&P/TSX Small Cap Index (CAD) (Cdn Small Cap), S&P 500 TR (CAD) (S&P 500 CDN), S&P 500 TR (USD) (S&P 500 USD), MSCI Europe, Australasia and Far East (EAFE) Net (CAD) (EAFE), MSCI Emerging Market Net (CAD) (Emerging Markets), MSCI World Net (CAD) (World), Crude Oil Futures (CL1 Comdty) (Oil), Gold Future (GOLDS comdty) (Gold).

Portfolio Positioning and Performance

- Overall, the World Selection Portfolios fell between 7.3% for the Conservative Portfolio and 21.4% for the Aggressive Growth Portfolio. Using the HSBC World Selection Balanced Portfolio as a proxy, stock selection in the foreign equity pooled funds detracted from performance.
- On a positive note, an overweight in cash and our allocation to fixed income added value over the quarter, as we trimmed our equity positions in mid-February in light of stretched valuations amid the viral outbreak.
- Using the HSBC World Selection Balanced Portfolio as a proxy, the following transactions took place over the quarter:
  - In February, we reduced our overweight position in Canadian equities and US equities, deploying the proceeds to the HSBC Canadian Money Market Pooled Fund. This cautious move was in recognition of elevated investor sentiment and our concern that the impact of the COVID-19 outbreak was potentially being underpriced.
  - In March, amid a sharp market correction, we cautiously added into equities through a small reduction in our cash and mortgage fund allocation. We also shifted our risk asset exposure at the same time, decreasing our allocation to emerging market debt and eurozone/Japanese equities. For this move, we increased our allocation to the HSBC Canadian Dividend Pooled Fund, HSBC Canadian Equity Pooled Fund, HSBC U.S. Equity Pooled Fund and HSBC Global Real Estate Equity Pooled Fund by reducing our positions in the HSBC Canadian Money Market Pooled Fund, HSBC Mortgage Pooled Fund, HSBC International Equity Pooled Fund and HSBC Emerging Markets Debt Pooled Fund.
  - In the second half of March, our cash cushion and fixed income allocation grew with further panic selling in the stock market and we took another step into equities. Recognizing that North American developed countries have more room for fiscal and monetary support, we purchased the HSBC U.S. Equity Pooled Fund, the HSBC Canadian Equity Pooled Fund, and the HSBC Canadian Dividend Pooled Fund. We reduced our positions in the HSBC Canadian Money Market Pooled Fund, the HSBC Global Inflation Linked Bond Pooled Fund, and the HSBC Canadian Small Cap Equity Pooled Fund.
  - Throughout the month of March, even after our cautious dips into equities, we maintained our higher allocations to the HSBC Canadian Money Market Pooled Fund and HSBC Mortgage Pooled Fund. Equities are underweight in the portfolios due to market movements, but we are likely to take further action opportunistically to gradually reduce this.

World Selection Portfolio Performance

Annualized returns	**YTD**	**3 months**	**1 year**	**3 years**	**5 years**	**10 years**	**Since inception**
Conservative	-7.27%	-7.27%	-3.32%	1.30%	2.45%	4.79%	5.11%
Moderate Conservative	-10.64%	-10.64%	-6.40%	0.52%	2.20%	5.06%	5.26%
Balanced	-14.88%	-14.88%	-9.91%	-0.46%	2.10%	5.86%	5.74%
Growth	-18.17%	-18.17%	-12.78%	-1.16%	2.02%	6.52%	6.08%
Aggressive Growth	-21.39%	-21.39%	-15.67%	-1.88%	1.78%	7.03%	5.90%

Source: HSBC Global Asset Management (Canada) Limited, as at March 31, 2020.

Except as otherwise noted, the indicated rates of return are the historical annual compounded total returns for the period indicated. The rates of return for periods of less than one year are simple rates 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 shown in Canadian dollars.

Outlook

- Looking forward, the good news is that policymakers are responding to this fast-moving situation. Controlling the spread of the COVID-19 virus and the initial shocks to the global economy are outside of what is possible for monetary and fiscal policy. However, economic policymakers can try to help prevent the health crisis from becoming a financial crisis. We have already seen a number of countries innovate with new monetary policy tools that are being combined with fiscal policy support.
- The speed of the response and the level of policy ingenuity has been impressive and is a cause for optimism. Policymakers are taking advantage of low inflation and low bond yields to provide significant economic support. Fiscal deficits are not a concern at this point.
- At the end of the day, the viral outbreak is a medical emergency and the situation will require a medical solution, therapies to treat the sick and vaccines. For now, we expect the economic outlook to remain uncertain, leading to higher market volatility. That means that we think a cautious investment strategy is warranted in the near term. However, there is a silver lining: given that markets are pricing in a lot of bad news, there is a potential reward for investors who can take a long-term view and withstand short-term volatility.

Tactical Asset Allocation Positioning

Asset class	Strategy	Rationale and Risks to Consider
Fixed income	**Underweight:** Canadian bonds, global inflation-linked bonds, emerging market debt **Neutral:** Global high yield **Overweight:** Mortgages	◆ The overall portfolio allocation to fixed income increased over the quarter with the sharp decline in the equity markets. However, after March's stock market fall, we cautiously rebalanced the portfolio away from fixed income towards equities. We will continue to do so opportunistically, with an increased focus on quality and liquidity. ◆ We reduced emerging market debt in the first half of March and we will look to top the position back to our longer-term neutral view. ◆ We continue to target a slight underweight position in global inflation-linked bonds and domestic bonds. ◆ We remain overweight in mortgages, while keeping our credit exposure neutral. We also hold a higher than benchmark allocation to money market funds.
Equities	**Underweight:** Global real estate equities **Modest Underweight:** Canadian equities, US equities, international equities, emerging market equities	◆ We maintain an underweight to global real estate equities but less so compared to the start of 2020. Real estate equity prices have continued to be volatile as the economic impact on rental growth and future dividends is uncertain. However, the market may have over-discounted the impact the virus will have on this asset class. ◆ It is expected that global corporate earnings growth will significantly deteriorate and we anticipate heighted volatility to continue. Our exposure to global stocks has fallen to a modest underweight during March due to the sharp market decline and we have cautiously added during the month to offset this. In the near term, a cautious investment strategy remains warranted. ◆ Longer term, we believe the economic disruption is likely to be temporary, and riskier asset classes are offering compelling values. ◆ In the US, current market pricing may offer buying opportunities for longer-term oriented investors. To be sure, market volatility is likely to remain high and corporate profits will be under pressure in the short term from the suddenly stop in economic activity. ◆ For EAFE, both Europe and Japan were experiencing slower economic growth prior to the COVID-19 outbreak. In the case of Europe, containment measures have been significant and potential political hurdles exist to obtain aggressive policy support. In Japan, policy support has been constrained by already low interest rates. ◆ Emerging market equities may benefit from stimulus from policymakers in China and activity resumption. However, from an historic valuation standpoint, emerging market equities are not particularly cheap, and lower oil prices could be a headwind to some emerging market countries. ◆ The length of the COVID-19 containment measures, the potential for a second wave of infections, and the dynamics of an economic recovery remain key risks to the outlook.

Underweight, overweight and neutral reflect a combination of our long-term valuation signals, our shorter-term cyclical views and actual positioning in portfolios.
The views are expressed with reference to model portfolios. However, individual portfolio positions may vary according to mandate, benchmark, risk profile and the availability and riskiness of individual asset classes in different regions.
"Overweight" implies that, within the context of a well-diversified typically multi-asset portfolio, and relative to relevant internal or external benchmarks, HSBC Global Asset Management (Canada) Limited has (or would have) a positive tilt towards the asset class.
"Underweight" implies that, within the context of a well-diversified typically multi-asset portfolio, and relative to relevant internal or external benchmarks, HSBC Global Asset Management (Canada) Limited has (or would have) a negative tilt towards the asset class.
"Neutral" implies that, within the context of a well-diversified typically multi-asset portfolio, and relative to relevant internal or external benchmarks, HSBC Global Asset Management (Canada) Limited has (or would have) neither a particularly negative nor positive tilt towards the asset class.

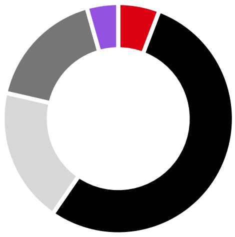
Strategic and Current Tactical Allocations

Current Tactical Asset Allocation		Strategic ranges*

Conservative Portfolio

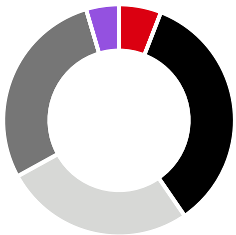
	Current Tactical Asset Allocation	Strategic ranges*
Cash:	7.9%	0%–17%
Fixed Income:	66.2%	55%–75%
Canadian Equity:	14.8%	7%–27%
Foreign Equity:	11.1%	1%–21%
Other:	0.0%	0%–10%

Moderate Conservative Portfolio



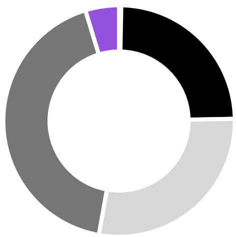
	Current Tactical Asset Allocation	Strategic ranges*
Cash:	5.8%	0%–15%
Fixed Income:	53.8%	42%–62%
Canadian Equity:	19.0%	11%–31%
Foreign Equity:	17.0%	7%–27%
Other:	4.4%	0%–10%

Balanced Portfolio



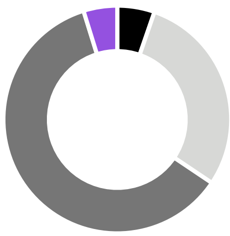
	Current Tactical Asset Allocation	Strategic ranges*
Cash:	5.9%	0%–15%
Fixed Income:	34.5%	23%–43%
Canadian Equity:	26.6%	18.5%–38.5%
Foreign Equity:	28.4%	18.5%–38.5%
Other:	4.6%	0%–10%

Growth Portfolio



	Current Tactical Asset Allocation	Strategic ranges*
Cash:	0.3%	0%–10%
Fixed Income:	24.4%	14%–34%
Canadian Equity:	28.1%	18%–38%
Foreign Equity:	42.5%	33%–53%
Other:	4.7%	0%–10%

Aggressive Growth Portfolio



	Current Tactical Asset Allocation	Strategic ranges*
Cash:	0.0%	0%–10%
Fixed Income:	5.3%	0%–18%
Canadian Equity:	29.1%	17%–37%
Foreign Equity:	60.8%	50%–70%
Other:	4.8%	0%–10%

Source: HSBC Global Asset Management (Canada) Limited, as at March 31, 2020. For illustrative purposes only.

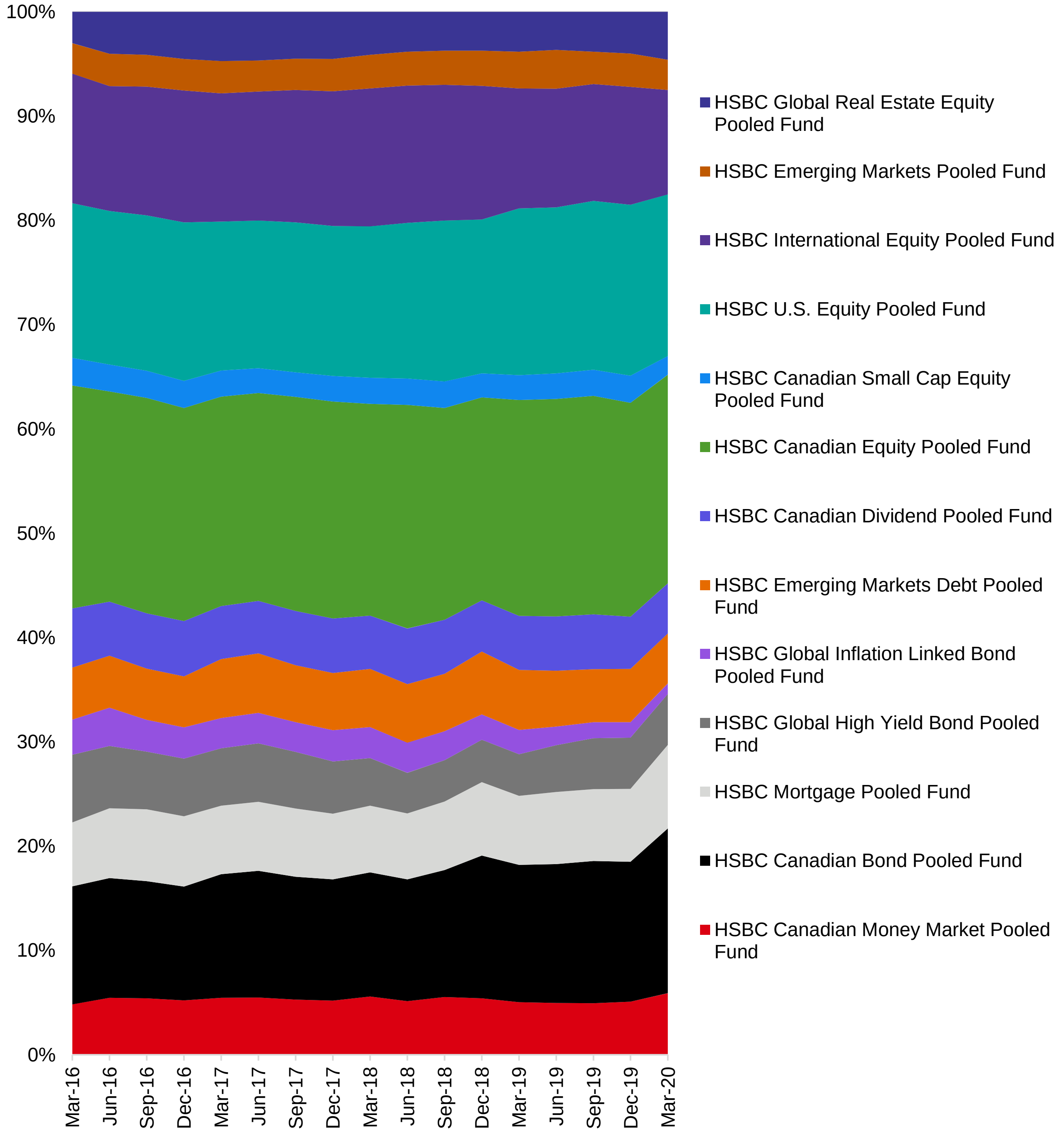
*Tactical Asset Allocation: The investment team exploits shorter-term market opportunities to the benefit of our customers. This is called Tactical Asset Allocation (or TAA). Our shorter-term views (six to 12 months) are expressed in deviations of the actual portfolio weights from the SAA weights.

***Strategic ranges refer to Strategic Asset Allocation (SAA), which is the long-term portfolio positioning strategy. 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.**

Changes to Portfolio Asset Allocation

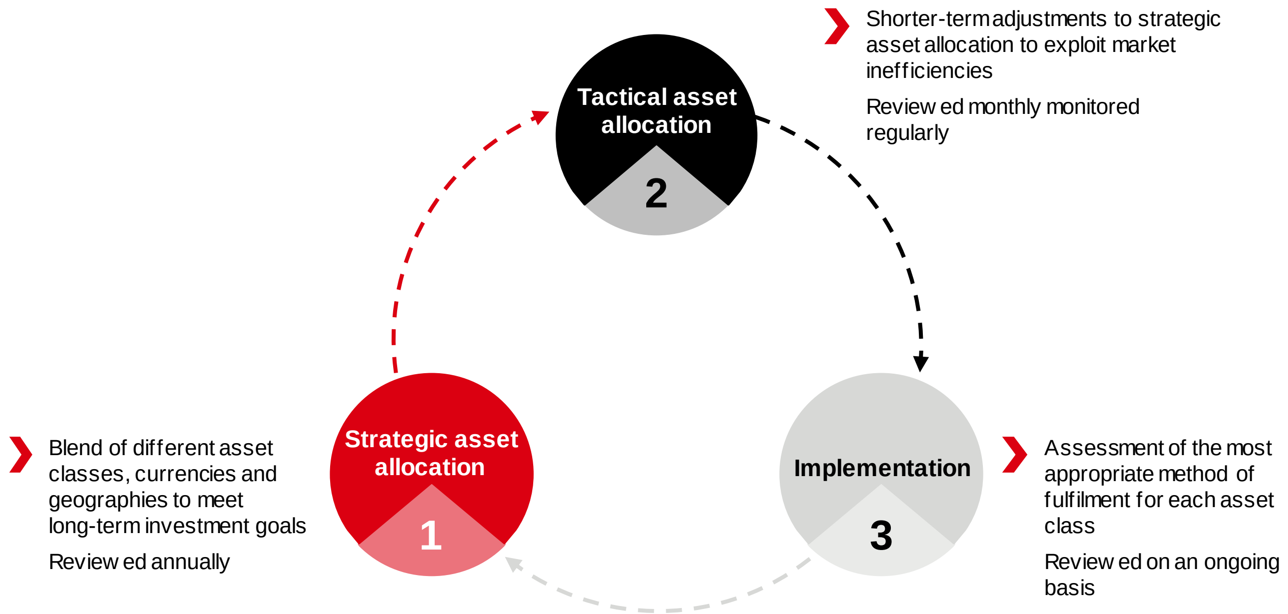
- Over 2019, overweights to equities were moved much closer to neutral, reflecting heightened market volatility, deteriorating sentiment and the strong performance in risk assets over the year.
- Over the first quarter of 2020, the overall portfolio allocation to fixed income increased as equity markets declined. We have cautiously rebalanced the portfolio over the quarter.

Historical Change to Asset Allocation (Balanced Portfolio)



Source: HSBC Global Asset Management (Canada) Limited; data shown from March 31, 2016, to March 31, 2020.
For illustrative purposes only.

Three-step investment process to building a diversified portfolio



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

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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, and the prospectus and Fund Facts 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 government deposit insurer or financial institution, their values change frequently and past performance may not be repeated. 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 performance data of the HSBC World Selection Portfolio service model portfolios (“Portfolios”) is provided for illustration 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 indicated returns are 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. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. Any compounded rates of returns are used only to 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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The S&P/TSX Composite Index tracks changes in the share price of the largest companies listed on the Toronto Stock Exchange, representing a broad range of industries.

The S&P 500 or Standard & Poor's 500 Index is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies.

Expiry date: July 31, 2020

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