

**Emerging Markets Debt Fund (HSBC)**  
**Manulife HSBC Emerging Markets Debt Fund**  
**HSBC Global Asset Mgmt (Canada) Ltd.**

**June 30, 2016**

<b>Lead manager(s):</b>	Nishant Upadhyay	<b>Investment style:</b>	Active
<b>Investment objective:</b>	The fundamental investment objective of this Fund is to maximize return by investing primarily in fixed income securities issued by governments or corporations that provide exposure to emerging markets.		
<b>Last meeting date:</b>	March 2016	<b>Next estimated meeting date:</b>	Q1 2017
<b>Current Rating:</b>	<b>ON WATCH</b>		

## Annual fund performance (%)

	2012	2013	2014	2015	2016	YTD	5 yrs
<b>Emerging Markets Debt Fund (HSBC)</b>	N/A	4.57	7.60	1.79	5.43	5.74	N/A
HSBC Composite benchmark <sup>(1)</sup>	N/A	3.11	7.99	0.25	7.32	6.69	N/A
Value added (+) / lost (-)	N/A	1.46	-0.39	1.53	-1.89	-0.95	N/A
Benchmark:	50% JPM EMBI-Global (hedged) + 25% JPM Emerging Local + 25% JPM GBI-EM Global Diversified						

## Short-term performance analysis

- Year to date, the Fund has underperformed its composite benchmark.
- The portfolio's continuous large cash position (at about 20%) was the main detractor from relative performance.
- Local rates duration strategies also produced negative results which were compensated by positive results from local currency strategies.
- The Manager's bottom-up investment process focuses on the relative valuation of countries, currencies and rates which are combined with the team's top-down views to construct a model portfolio. Systematic stress testing is then used to calibrate proper portfolio positioning.
- The Manager has become more constructive in his views on Emerging Markets as economic fundamentals in a number of countries have shown signs of stabilization and valuations have been attractive. The Fund has added risk exposure to select EM currencies and continues to be underweight to local rate durations as the Manager expects local yields to widen due to rising inflationary pressures. In the hard currency universe, the Manager continues to favor countries with large reserves, floating exchange rate regimes and responsive central bank policies.

## Long-term performance analysis

- The Fund has outperformed its benchmark in two of the past four years and slightly added value on a four-year annualized basis.
- The serious concerns that exist at present are in regards to the recent large-scale turnover that has taken place on the team. Long-term performance has tended to be in-line with the benchmark.

## Significant corporate events

### Corporate

- There were no significant corporate events over the last three years.

### Fund specific

- In May 2016, HSBC announced that Lisa Chua, Portfolio Manager for the HSBC Emerging Markets Hard Currency portfolios and responsible for EM corporates in HSBC's Global Credit strategies, would be leaving HSBC Global Asset Management in June 2016. Her responsibilities were assumed immediately by the other members of the EM Debt team.
- In January 2016, HSBC announced that Abdelak Adjriou, co-Portfolio Manager for the HSBC Emerging Markets Local Debt Fund, would be leaving HSBC Global Asset Management in February 2016. His responsibilities were assumed immediately by the other members of the EM Debt team.
- In December 2015, HSBC announced that Nishant Upadhyay was appointed Head of the Global Emerging Market Debt Portfolio Management Team. Mr. Upadhyay had been overseeing the day-to-day management activities and decision-making process on an interim basis after the announcement of Guillermo Ossés' departure in November 2015.
- In November 2015, HSBC announced that Guillermo Ossés, Managing Director and Head of the Global Emerging Market Debt Portfolio Management team, would be leaving HSBC Global Asset Management in January 2016. His portfolio management responsibilities were assumed by the other members of the EM Debt team. Nishant Upadhyay, Senior EM Debt Portfolio Manager, took over overseeing the day-to-day activities and decision-making process on an interim basis.

## IMS commentary

- The Emerging Markets Debt investment strategies are based on the Manager's conviction that active management based on a combination of top-down and bottom-up fundamental perspectives, supported by a broad-based, rigorous research approach, can provide the best opportunity to exploit market inefficiencies. They believe that the flexibility to select from the widest universe of opportunities, across the full range of local and hard currency instruments, can provide investors with the best opportunity to exploit these inefficiencies and potentially add value in portfolios.
- The Fund has outperformed its benchmark in two of the past four years and slightly added value on a four-year annualized basis.
- The HSBC EM Debt investment team has gone through significant turnover over the last year, particularly with the departure of Mr. Guillermo Ossés that was announced in November 2015. Due to concerns with the continued turnover within the team, IMS recommended the Fund be placed under Increased Scrutiny at that time.
- In March 2016, the Fund was placed on-Watch due to our significant concerns with the team's stability and the lack of depth to support the team-based investment process. In May 2016, HSBC announced the departure of another long time portfolio manager, Lisa Chua, which again highlighted the challenge the HSBC EMD team has faced in retaining experienced portfolio managers. The loss of three senior team members within the last year has raised significant concerns in regards to the team's ability to retain talent and effectively manage their portfolio going forward given the loss in expertise and experience.

### Conclusion:

- Due to the facts that 1) the investment team of the Fund has gone through significant turnover over the last year, 2) the lack of proven track record of the new Portfolio Managers and 3) the short tenure of the new Head of the EMD team, IMS has serious concerns with the stability, depth and expertise of the remaining team and their ability to consistently execute their team based investment process. The Fund continues to be rated on-Watch.

<sup>(1)</sup> The source of benchmark returns are utilizing the Bank of Canada end of day for currency exchange. This change may result in minor differences from otherwise listed benchmark returns.

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