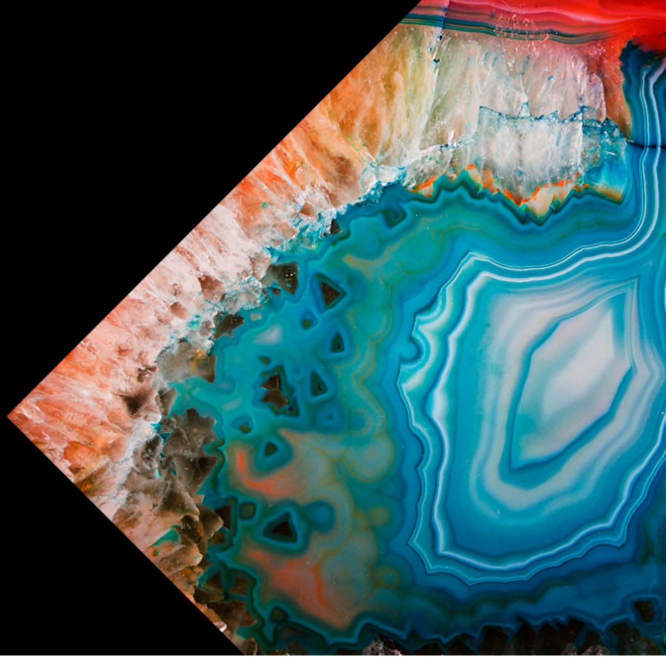
HSBC Asset Management



# Securitised Credit: Income, capital and diversification benefits for asset allocators

August 2025

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## Synopsis


Rates volatility, tight credit spreads and economic uncertainty is providing multi-asset allocators with a fixed income conundrum. A traditional 60/40 allocation is not the diversifier it once was. We believe the distributed Securitised Credit market could provide the much-needed solution. As this article will show:

1. It has a low correlation to traditional asset classes
2. The current interest rate regime is favourable for the asset class
3. Spreads in the asset class are wider of their historical tights
4. Through both the "lower for longer" environment and the current period, Securitised Credit has outperformed corporates on an absolute and risk-adjusted return basis

In our view, not only could Securitised Credit feature in the multi-sector fixed income component of portfolios, it could in fact be the stand-alone asset allocation for institutional multi-asset allocators.



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## Securitised Credit features in multi-sector fixed income

What may come as a surprise to investors is that Securitised Credit actually already features in multi-sector fixed income allocations either directly through a multi-sector fixed income allocation or indirectly through the Bloomberg Global Aggregate.

Taking a look at the Bloomberg Global Aggregate, Securitised Credit makes up 13% of the index. Of this, the majority (11%) is in US Fixed Rate Agency MBS, with the remainder in Other ABS.



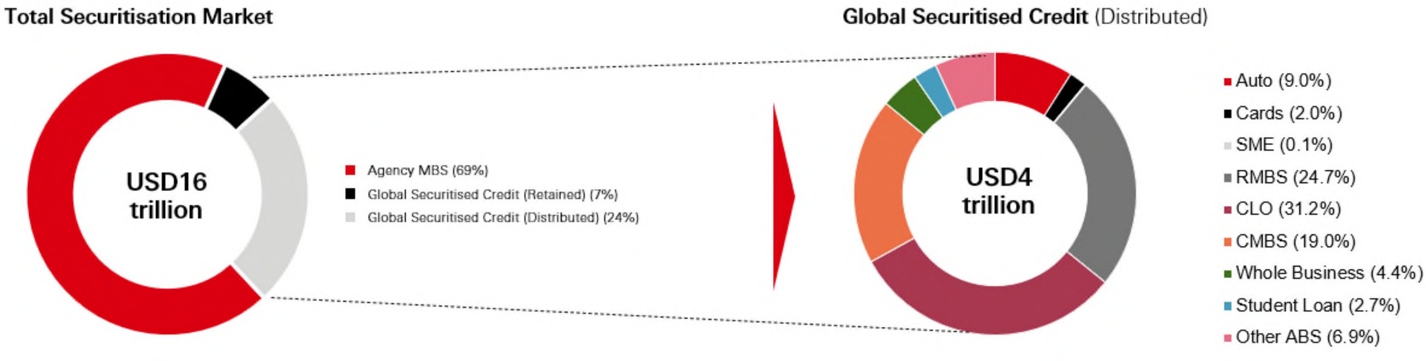
Source: Bloomberg, HSBC Asset Management. Data as at 31 July 2025

## Is this the right area of Securitised Credit to allocate to?

Although US Agency MBS is the largest part of the Securitised Credit universe making up c.$11 trillion, the sole risk here is interest rate risk (the underlying securitisations are explicitly/implicitly guaranteed by government agencies).

Given the current economic backdrop, investors are arguably not being compensated with yield for the duration risk being taken.

An area of Securitised Credit that offers yield enhancement, global opportunities, a unique cash flow profile and diversification benefits is the distributed Securitised Credit universe.




Sources: HSBC Asset Management; Australian Statistics Bureau; Reserve Bank of Australia, JPMorgan, BAML, Barclays; Data as of 31 July 2025.

As the chart on the right-hand side shows above, the distributed universe is large at $4 trillion. It provides investors with access to CLOs, CMBS, RMBS and Other ABS.

Being predominantly floating rate, these sectors are and will continue to generate high levels of income whilst simultaneously stripping out the volatility from duration. Furthermore, the sector benefits from a complexity and illiquidity premium meaning it offers a higher spread than equivalently rated traditional fixed income corporates. Credit spreads in corporate bonds are also at historic tights and are more likely to widen than tighten from these levels.

What's more is that current spreads in Securitised Credit, as can be seen in the chart below, are wide of the tights achieved during normal market trading levels over the past 10 years. The same cannot be said for traditional fixed income which continues to test new tights.

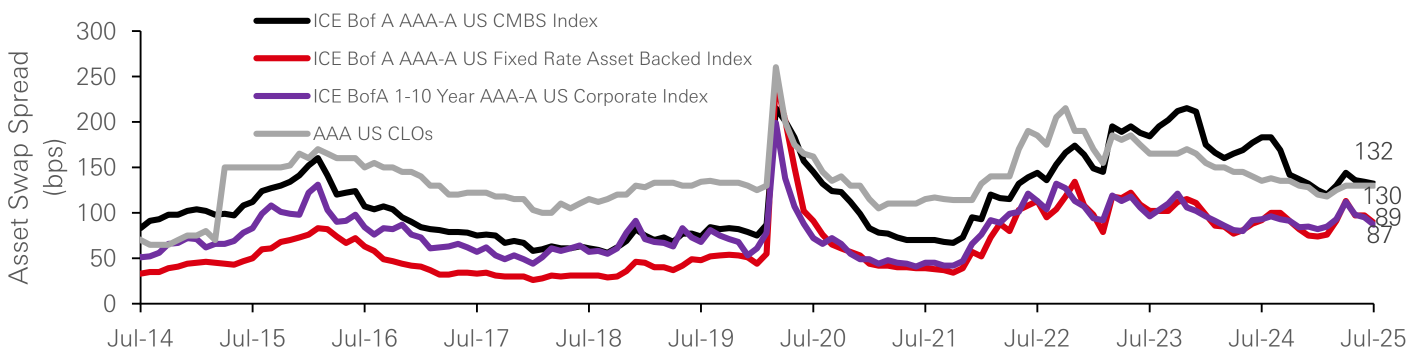
The real question for Multi-Asset allocators is where is the most relative value? As of 31 July 2025, the ICE BOFA AAA-A US CMBS index has an asset swap spread of 132bps. US AAA CLOs has an asset swap spread of 130bps.

As can be seen on the next page, this is 45bps and 43bps higher respectively than the ICE BOFA AAA-A US Corporate Index.



Source: HSBC Asset Management. Data as at 31 July 2025

**Spreads in distributed Securitised Credit offer the most relative historical value**




Source: Bloomberg, HSBC Asset Management. Data as at 31 July 2025

## What is the optimal allocation to distributed Securitised Credit?

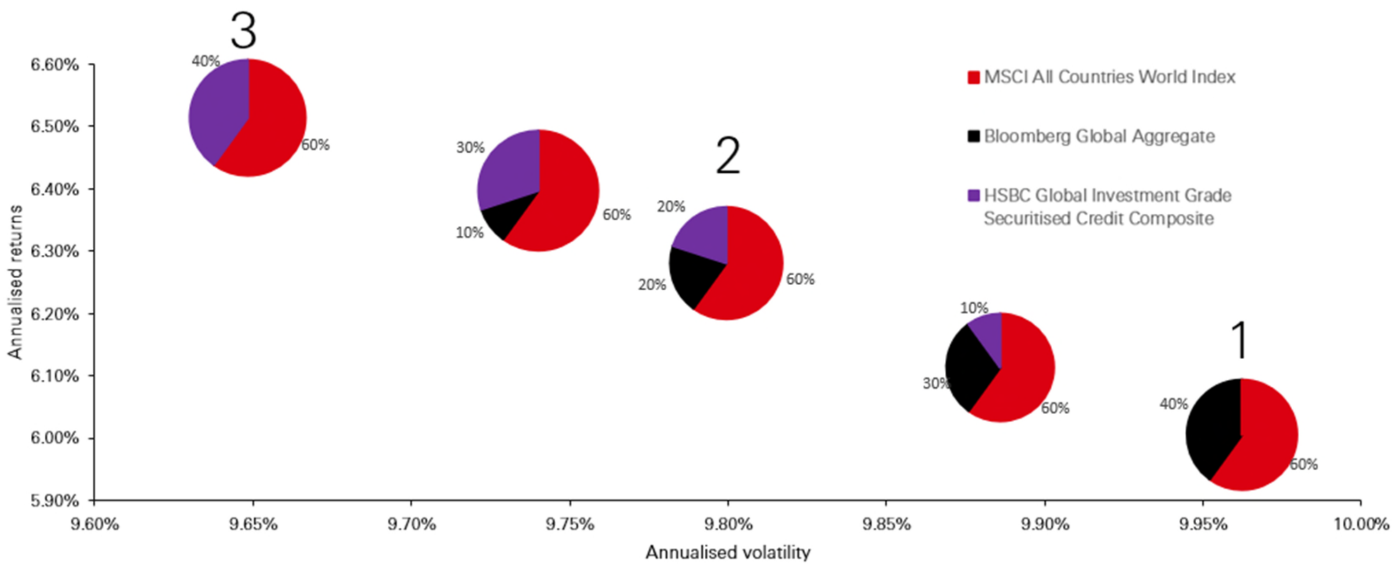
Multi-asset allocators seeking to dip their toes into Securitised Credit might be wondering what is the optimal allocation; we are all well versed in the efficient frontier when it comes to portfolio management. Some multi-sector fixed income managers allocate anywhere between 15% to 60% of their allocation to various types of both fixed and floating rate Securitised Credit.

The below chart would suggest that adding a high quality global Securitised Credit offering to a traditional 60/40 portfolio (combining equities and fixed income) could enhance returns whilst simultaneously lowering overall portfolio volatility. Looking at the past 12 years, a 60/40 portfolio returned 6.0% annually with an annualised portfolio volatility of 10.0%. (Number 1 in the chart below).

Replacing half of the fixed income allocation with the HSBC Global Investment Grade Securitised Credit composite increases annualised portfolio returns by 0.3% and lowers portfolio annualised volatility by 0.2%. (Number 2 in the chart below). Replacing the whole fixed income allocation increases annualised portfolio returns by a significant 0.6% and lowers annualised portfolio volatility by 0.3% (Number 3 in the chart below).

This is a significant diversification aspect for investors to consider; at an overall portfolio level, the right kind of Securitised Credit can increase returns whilst lowering volatility.

**A global high quality Securitised Credit offering deserves a seat at the Multi-Asset table**




Source: Bloomberg, HSBC Asset Management. Data from 31 July 2013 to 31 July 2025.

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Currently, many multi-asset allocators obtain their Securitised Credit exposure through a multi-sector fixed income approach (similar to the Global Aggregate index). The above highlights they might be missing a trick. It is quite clear to see that including the right kind of Securitised Credit in a multi-asset portfolio provides diversification, higher returns and most importantly higher risk-adjusted returns.

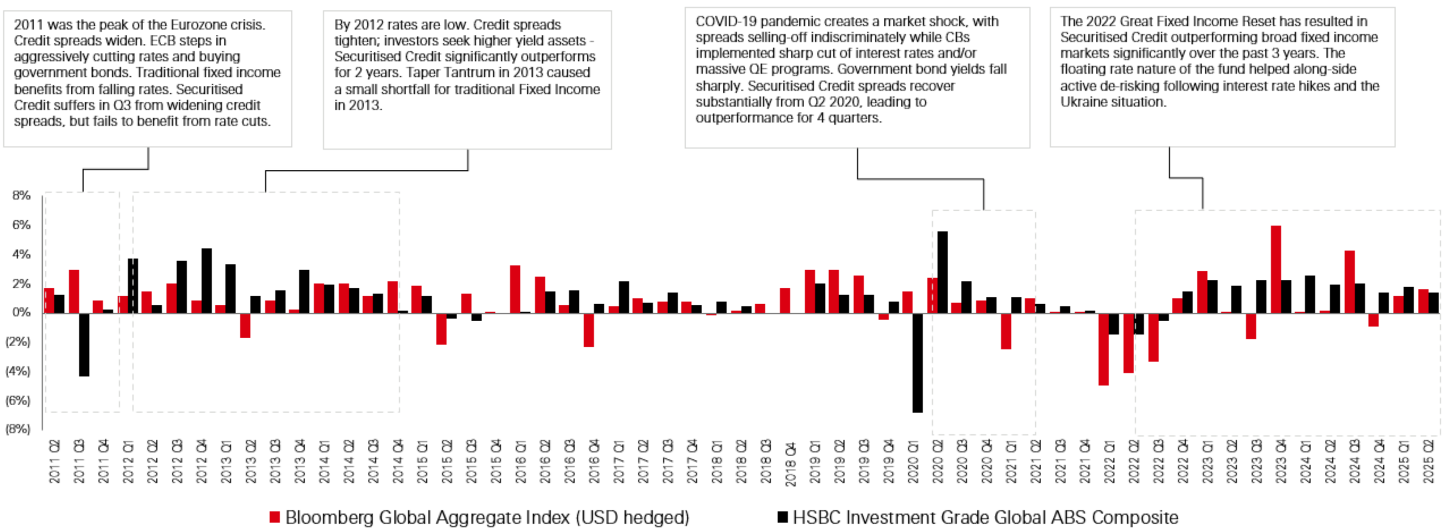
**What about an outright allocation?** The below chart shows that since 2011 Securitised Credit has outperformed the Bloomberg Global Aggregate.

What's interesting is that this includes credit shocks such as the Eurozone crisis, the Taper Tantrum, COVID-19 and more recently the Great Fixed Income Reset.

As the chart illustrates, initially the Bloomberg Global Aggregate outperforms due to higher duration exposure especially when compared to Securitised Credit specifically. Being a predominantly floating-rate credit product, the initial impact results in credit spreads widening without the duration protection from interest rates falling.

However, the subsequent recovery in credit spreads results in noticeable outperformance which is driven by the higher income of the asset class. What's more is that historically these market dislocations have provided opportunities for active managers to source high quality securities at discounted prices.

### Securitised Credit can replace Fixed Income in a Multi-Asset portfolio




Source: HSBC Asset Management/Bloomberg Indices. Data as at 30 June 2025, calculated in USD. Returns may vary with fluctuations in the exchange rate.

## A like-for-like comparison

One might argue that the Global Aggregate index may not be a fair comparator given it has circa 70% in government/government-related bonds vs a "credit-only" Securitised Credit offering.

Comparing an Investment Grade Securitised Credit offering versus a comparatively rated Investment Grade corporates index demonstrates the strong track record of Securitised Credit. As the table below shows, over a 15-year period, the HSBC Global Investment Grade Securitised Credit composite versus the Corporate Index has:

1. Outperformed on an absolute basis
2. Had a lower volatility profile
3. A superior Sharpe ratio
4. Due to its unique offering, a low correlation to fixed income corporates

The key takeaway however is that the composite has achieved this with a much lower duration profile. As the table below illustrates, the duration of the HSBC Global Investment Grade Securitised Credit composite of 0.6 years is 10 times lower than that of Bloomberg Global Aggregate corporate index of 6.0 years.

**Securitised Credit can replace Fixed Income in a Multi-Asset portfolio**

| | Investment Grade | |
|---|---|---|
| | **HSBC Global Investment Grade Securitised Credit Composite** | **Bloomberg Global Aggregate Corporate Index** |
| **Annualised Return** | **4.4%** | 3.7% |
| **Volatility** | **3.0%** | 5.2% |
| **Sharpe Ratio** | **0.9** | 0.4 |
| **Correlation[1]** | **0.45** | |
| **Duration[2]** | **0.6 year** | 6.0 years |

**Rolling year returns (%)**

| | 31/07/2024 to 31/07/2025 | 31/07/2023 to 31/07/2024 | 31/07/2022 to 31/07/2023 | 31/07/2021 to 31/07/2022 | 31/07/2020 to 31/07/2021 | 31/07/2019 to 31/07/2020 | 31/07/2018 to 31/07/2019 | 31/07/2017 to 31/07/2018 | 31/07/2016 to 31/07/2017 | 31/07/2015 to 31/07/2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Global Investment Grade Securitised Credit Composite** | 6.60 | 9.17 | 7.21 | -3.65 | 4.35 | 0.90 | 4.11 | 2.99 | 4.65 | 1.98 |

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Source: HSBC Asset Management and Bloomberg. Data as at 31 July 2025, calculated in USD. All strategies and indices are USD hedged. Past performance is shown gross of fees, meaning any potential returns will be reduced by the deduction of investment management fees and any other expenses incurred. The Composite are denominated in USD. Returns may vary with fluctuations in the exchange rate. This material is supplemental to GIPS compliance requirements and is provided for your information. This supplemental material complements the GIPS compliant composite presentation which is available in the appendix. Please refer to the GIPS disclosure statement in the appendix for the impact of investment advisory fees and expenses on performance and for benchmark definitions. Performance data for the HSBC Global Investment Grade Securitised Credit Composite and the Bloomberg Global Aggregate Index is for the period 30 Jun 2010 to 31 July 2025.

Notes: (1) Correlations pre-Covid-19 were 0.30 (end-Jan 2020). (2) Duration refers to modified duration.

## The demand is there

The asset class has many features that meet a diverse range of investors' requirements:

- As can be seen above, Multi-Asset allocators can benefit from the low correlation and diversification benefits.
- For pension funds, defined contribution and defined benefit strategies, Securitised Credit provides compelling income via yield enhancement.
- For insurance companies (subject to the underlying applied regulatory environment), it offers compelling capital treatment with higher returns than traditional fixed income with similar credit charges.
- Private Banks and Family Offices like the diversification, income generation and low correlations.
- Corporate Treasurers, looking for high-quality, higher-yielding alternatives to lower cash rates, have been allocating to Securitised Credit within their longer-term strategic cash bucket.

## Conclusion

Multi-Sector fixed income is at a difficult juncture; rates markets are volatile, and traditional credit is struggling to offer risk-adjusted value going forwards. The $4 trillion distributed Securitised Credit market is predominately floating rate, always offers a higher spread over corporates and is currently wider of its historical market tights. Securitised markets move differently to traditional asset classes meaning combined with a higher return profile, it also offers clear investor diversification benefits. Indeed, as illustrated above, it can enhance the return of a traditional 60/40 portfolio whilst lowering overall volatility. In fact, looking over the longer-term, Multi-Asset allocators could replace their current traditional fixed income allocation directly with Securitised Credit and fully reap the benefits and rewards that the asset class has to offer.



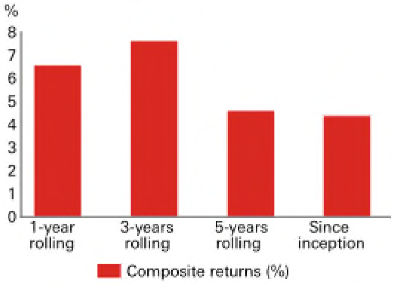
Source: HSBC Asset Management. Data as at 31 July 2025

# Global Investment Grade Securitised Credit

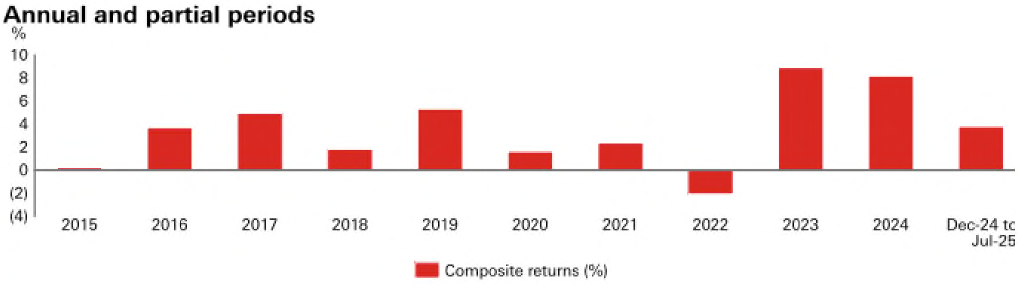
## GIPS® report to 31 July 2025

| | |
|---|---|
| Inception date: | 30 June 2010 |
| Reporting currency: | USD |
| Return type: | Gross |

### Annualised returns




### Annual and partial periods




| Period | Composite returns (%) |
|---|---|
| 1-year rolling | 6.60 |
| 3-years rolling | 7.65 |
| 5-years rolling | 4.64 |
| Since inception | 4.40 |

| | Returns | Accounts and dispersion | | | Risk, 3-year standard deviation | AUM | | |
|---|---|---|---|---|---|---|---|---|
| Year | Composite returns (%) | Accounts at end | 90th percentile returns | 10th percentile returns | Composite volatility | Composite at end (m) | % firm assets | Total firm at end (m) |
| Dec-24 to Jul-25 | 3.80 | ≤5 | 3.80 | 3.80 | 1.59 | 4,603.66 | | |
| 2024 | 8.18 | ≤5 | 8.18 | 8.18 | 2.46 | 3,044.17 | | |
| 2023 | 8.90 | ≤5 | 8.90 | 8.90 | 2.37 | 1,971.75 | 0.39 | 504,900.49 |
| 2022 | (2.07) | ≤5 | (2.07) | (2.07) | 5.38 | 1,256.04 | 0.31 | 399,106.53 |
| 2021 | 2.39 | ≤5 | 2.39 | 2.39 | 5.06 | 1,631.95 | 0.38 | 427,704.00 |
| 2020 | 1.61 | ≤5 | 1.61 | 1.61 | 5.08 | 783.33 | 0.20 | 401,218.93 |
| 2019 | 5.32 | ≤5 | 5.32 | 5.32 | 1.00 | 1,055.52 | 0.32 | 327,265.51 |
| 2018 | 1.83 | ≤5 | 1.83 | 1.83 | 1.10 | 508.20 | 0.20 | 253,946.01 |
| 2017 | 4.94 | ≤5 | 4.94 | 4.94 | 1.19 | 338.26 | 0.12 | 275,420.02 |
| 2016 | 3.70 | ≤5 | 3.70 | 3.70 | 1.16 | 101.12 | 0.04 | 227,899.34 |
| 2015 | 0.24 | ≤5 | 0.24 | 0.24 | 2.21 | 35.25 | 0.02 | 223,598.72 |

# Disclosures: Report to 31 July 2025

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The composite creation date is 25/03/2015

A list of composite descriptions, a list of limited distribution pooled fund descriptions, and a list of broad distribution pooled funds are available upon request. The Firm's policies for valuing investments, calculating performance, and preparing GIPS reports are available upon request.

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No benchmark is presented for this composite. Constituent accounts within the composite have the objective of achieving an absolute return within the investment mandate, and are assessed without reference to any index.

The Global Investment Grade Securitised Credit composite consists of all discretionary accounts and mandates, where the investment objective is to invest for total return, in a global portfolio of Securitised Credit bonds that are predominantly rated AAA to A.

Actual management fees are negotiable at the discretion of HSBC.

Performance returns are calculated gross of investment management fees and other non-trading related expenses. Gross returns were used to calculate all risk measures presented in this GIPS Composite Report.

The performance presented in this composite report is calculated net of unreclaimable withholding taxes.

Warnings: The historical performance presented in these reports should not be seen as an indication of future performance; The value of your investment and any income from it can go down as well as up. Where overseas securities are held the rate of exchange may cause the value of the investment to go down as well as up.Investors should also be aware that other performance calculation methods may produce different results, and that the results for specific portfolios and for different periods may vary from the returns presented in these reports; Comparisons of investment returns should consider qualitative circumstances and should be made only to portfolios with generally similar investment objectives. In the USA, this information is intended for use solely in one-on-one presentations.

The standard annual investment management fee for separately managed institutional accounts is 0.45% pa.

Portfolios in the composite may invest in swaps, futures, options, and forwards for the purpose of risk hedging and/or return enhancement.

The firm's gross of fee performance returns are reduced by trading expenses but do not reflect the deduction of investment advisory fees. A client's actual performance will be reduced by investment advisory fees as well as other expenses charged to a client's account. As an example, an annual investment advisory fee of 0.60% would reduce an annualized five year performance return of 5.00% (gross of investment advisory fees) to an annualized five year performance return of 4.37% (net of investment advisory fees).

The composite's net of fee returns are calculated using the highest fee rate charged amongst the current constituents in the composite as described below. The process of determining the highest fee was based on reviewing the fee structures of all the current accounts within the composite. The composite may consist of segregated managed accounts and/or pooled vehicles. For segregated managed accounts that may have a fee scale that reduces the management fee as assets under management increase, the highest fee rate of the scale will be considered. For pooled vehicles, the management fee of the fund's institutional share class are considered. The constituent determined to have the highest fee rate will have that fee rate applied evenly across the composite. The fee rate is accounted for on an accrual basis and applied monthly. Portfolios may have a performance based fee which is subject to negotiation.

The dispersion of returns are measured by the percentiles of gross portfolio returns represented within the composite.

The GIPS Total Firm AUM is calculated and shown on a quarterly basis.

Prior to 01/09/2019 the composite was called Investment Grade Global Asset Backed Securities. The new composite name is to reflect ABS changing to Securitised Credit.

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- **Interest rate risk:** As interest rates rise debt securities will fall in value. The value of debt is inversely proportional to interest rate movements.
- **Counterparty risk:** The possibility that the counterparty to a transaction may be unwilling or unable to meet its obligations.
- **Credit risk:** Issuers of debt securities may fail to meet their regular interest and/or capital repayment obligation. All credit instruments therefore have the potential for default. Higher yielding securities are more likely to default.
- **Default risk:** The issuers of certain bonds could become unwilling or unable to make payments on their bonds.
- **Emerging markets risk:** Emerging markets are less established, and often more volatile, than developed markets and involve higher risks, particularly market, liquidity and currency risks.
- **Exchange rate risk:** Investing in assets denominated in a currency other than that of the investor's own currency perspective exposes the value of the investment to exchange rate fluctuations.
- **Investment leverage risk:** Investment Leverage occurs when the economic exposure is greater than the amount invested, such as when derivatives are used. A Fund that employs leverage may experience greater gains and/or losses due to the amplification effect from a movement in the price of the reference source.
- **Asset Backed Securities (ABS) risk:** ABS are typically constructed from pools of assets (e.g. mortgages) that individually have an option for early settlement or extension and have potential for default. Cash flow terms of the ABS may change and significantly impact both the value and liquidity of the contract.
- **Derivatives risk:** The value of derivative contracts is dependent upon the performance of an underlying asset. A small movement in the value of the underlying can cause a large movement in the value of the derivative. Unlike exchange traded derivatives, over-the-counter (OTC) derivatives have credit risk associated with the counterparty or institution facilitating the trade.
- **High yield risk:** Higher yielding debt securities characteristically bear greater credit risk than investment grade and/or government securities.
- **Liquidity risk:** Liquidity is a measure of how easily an investment can be converted to cash without a loss of capital and/or income in the process. The value of assets may be significantly impacted by liquidity risk during adverse markets conditions.
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