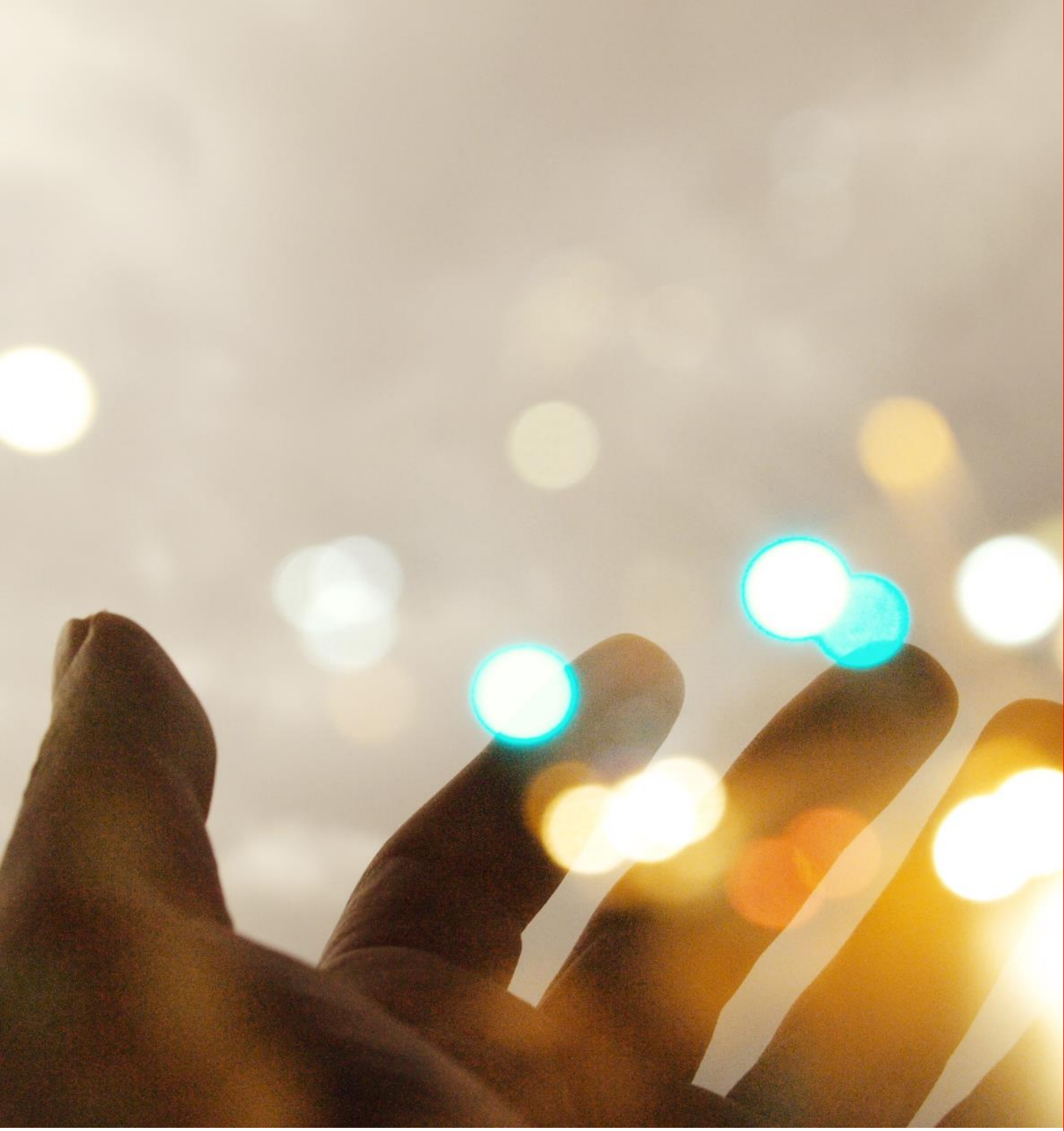


# HSBC GIF Global Lower Carbon Funds Product Brochure

October 2017

HSBC Global Asset Management

# Understanding and managing climate risks

As illustrated by the 2017 hurricane season in the Americas and monsoon flooding in Asia, extreme weather events are becoming both more severe and more frequent.

The reality of climate change poses a threat to both the global economy and companies, making it a key risk for investors.

On the flip side, the transition to an economy with lower CO2 emissions (a “lower-carbon” economy) will create investment opportunities, as new technologies emerge to tackle climate change, and as the cost of existing ‘clean’ technology falls sharply. Regulators and policymakers are also driving companies to reduce their exposure to climate risks and to invest in the lower-carbon transition.

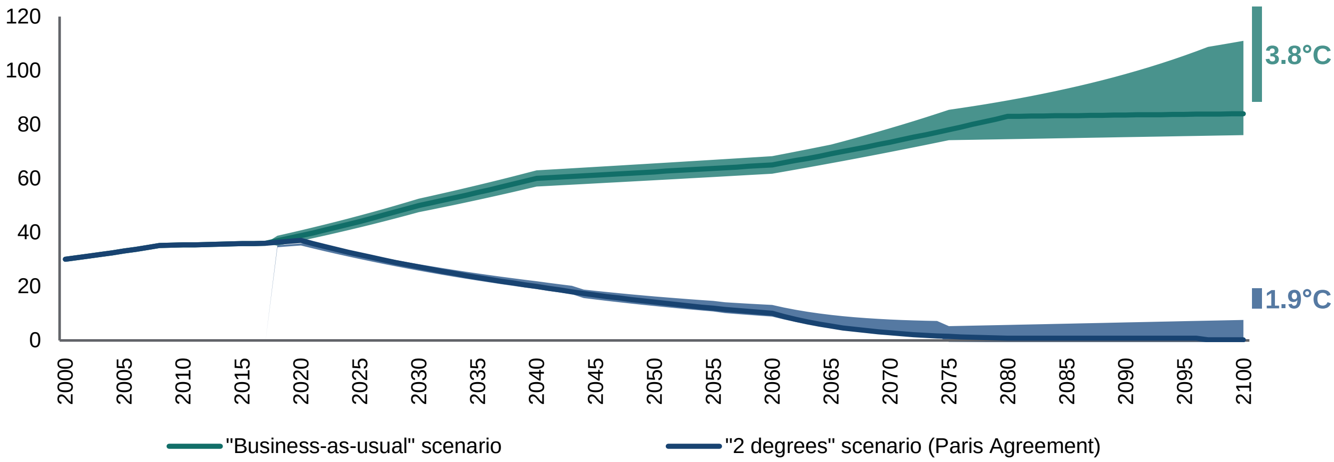
We recognise that the world needs to move to a lower-carbon economy to tackle climate-related risks. This was the driving force behind our new HSBC GIF Global Lower Carbon Bond and Equity funds, designed to provide potential long-term gains without giving up near-term performance.

## The scope of the problem

- More effort is required to drastically reduce CO2 emissions
- Limiting global warming to 2ºC above pre-industrial level could avoid the most serious consequences of climate change
- Paris Climate Agreement: over 190 countries have committed to taking action on climate change

**Annual greenhouse gas emissions: two main climate change scenarios**

**Annual $C0_2$ emissions (GtCo2e/year)**




Source: Clarke et al. (2014), Carbon Tracker Initiative, “The USD2 trillion stranded assets danger zone”, November 2015.

GtC02e = gigaton of carbon-dioxide equivalent

## Carbon reduction and investment objectives

**Reduce climate-related financial risk and invest in the low-carbon economy**

Reduce climate-related financial risk

Measure the carbon footprint to assess the fund’s exposure to climate risk:

- Transition risk from policy, technology and energy sources
- Physical risk to assets
- Regulatory risk


Lower-carbon asset allocation

- Use carbon data to assess carbon intensity of holdings
- Re-allocate portfolio to carbon-efficient companies

**Reduce the carbon impact of the portfolio**

Source: HSBC Global Asset Management, September 2017

Natixis SRI Research 2016

# Balancing low-carbon targets with attractive returns

**The HSBC GIF Global Lower Carbon Funds** seek to have a lower carbon footprint than their reference benchmarks by reducing total exposure to securities and sectors with the highest greenhouse gas (GHG) emissions.

## Reducing climate-related financial risk by allocating to low-carbon assets

It is becoming increasingly clear that all companies will be impacted by climate change in the near future.

From a financial standpoint, the impacts will come from regulation or policy changes that will be implemented over time in most countries, such as government action to limit temperature increases to 2 degrees. Some impacts will also come from the direct, physical consequences of global warming.

By taking timely action, investors could help reduce the risks to their portfolios associated with climate change. In this context, we believe lower-carbon funds are a good option to invest in assets with lower carbon emissions.

## Carbon-conscious investing

In the Global Lower Carbon funds, all holdings must pass a carbon-intensity assessment to be eligible for purchase. This is the volume of CO2 emissions for a given level of company turnover, translated into the volume of CO2 emissions per dollar we invest. This approach enables us to manage and reduce the carbon footprint of the portfolio.

The funds are also highly diversified, and follow the same disciplined investment approach as all of our Global Investment Funds. The Global Lower Carbon Equity fund follows an active systematic strategy, and the Global Lower Carbon Bond fund takes an active fundamental approach.

## Assessing carbon footprinting

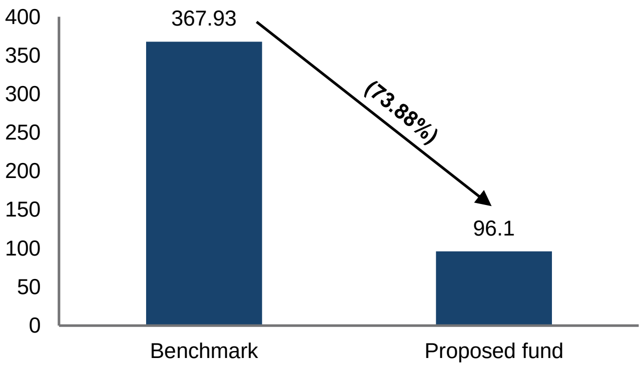
The Greenhouse Gas Protocol classifies the scope of a company's greenhouse gas (GHG) emissions, commonly measured in tonnes of carbon dioxide equivalents (tCO2e).

We first measure the carbon footprints of single securities, to tell us how many tCO2e are associated with each. Then, by using a weighted-average approach, we can assess the carbon footprint of the overall fund.

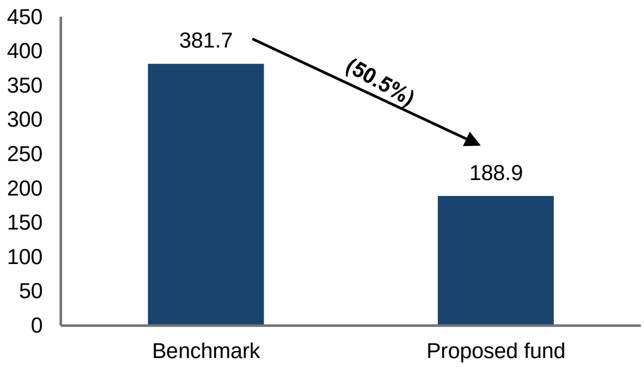
## Global Lower Carbon portfolio examples

The figures below illustrate the carbon intensity of sample lower-carbon equity and bond portfolios compared with the carbon intensity of their reference benchmarks.

**Sample bond portfolio carbon intensity ($tCO_2e$ per USD1 million)**




**Sample equity portfolio carbon intensity ($tCO_2e$ per USD1 million)**




Source: Bloomberg, HSBC Global Asset Management. For Illustrative purposes only. Sample bond portfolio data as of 7 July 2017. Sample equity portfolio data as of 30 June 2017. The results of the sample portfolios are hypothetical, are provided for illustrative purposes only, and are no guarantee of future results. The results do not include the impact of fees, which would reduce the returns. No representation is being made that any portfolio has achieved, or will likely achieve the results shown. Benchmark for bond portfolio example: Bloomberg Barclays Global Aggregate Corporates Diversified Index Hedged USD. Benchmark for equity portfolio example: MSCI World (USD 100 min).

# HGIF Global Lower Carbon Equity Fund

## Objective

The fund follows a highly-diversified factor strategy with better control of risk exposures than a traditional index fund. Multi-factor strategies aim to provide improved risk-adjusted returns compared to cap-weighted indices, while diversifying risks and combining multiple style factors.

## Multi-factor investment process

The HSBC GIF Global Lower Carbon Equity Fund uses a multi-factor investment process to identify and rank the most attractive stocks in its investment universe.

In order to lower the exposure to carbon-intensive businesses, we assess all stocks in the portfolio for their carbon footprint.

Finally, we use our proprietary investment process to create a portfolio which maximises exposure to the most attractive stocks and reduces the portfolio's carbon footprint.

## Cost-effective

When compared to typical actively-managed funds, multi-factor solutions are generally more cost-efficient.

## Research-driven

Our investment teams use bespoke portfolio construction tools and customised risk models to manage the fund's exposures while avoiding unrewarded risks compared to the benchmark.

The portfolio is implemented by the passive equity portfolio management team, benefitting from their long experience.

In today's environment of transition towards a lower-carbon economy, the HSBC GIF Global Lower Carbon Equity Fund offers a solution to balance low-carbon targets with attractive equity returns.

## What are some of the risks when investing in this Fund?

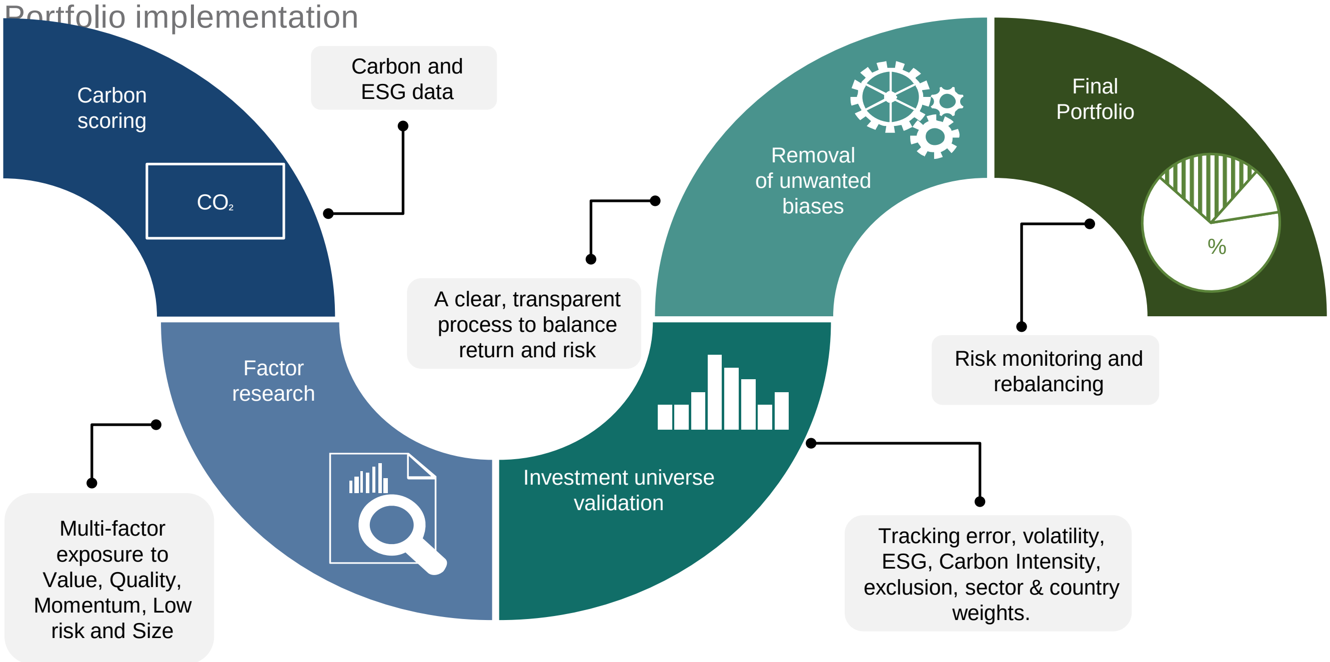
**Capital at risk:** the value of investments and the income derived from them may fall or rise on a daily basis and investors may not get back their initial investment. Equities' prices are exposed to stock-market fluctuations and the financial performance of the companies that issue such equities.

**Currency risk:** the fund's reference currency is US dollar and the fund will normally invest in US dollar-denominated securities. However, the fund may also have non-US dollar exposure; in this case, fluctuations in the exchange rates of these foreign currencies may affect the income and value of investments.

**Derivatives risk:** the fund may use derivative instruments such as futures for hedging, cash flow management and also, but not extensively, for investment purposes. Derivatives involve risks different from, and, in some cases, greater than, the risks presented by more traditional securities investments. Some of the risks associated with derivatives are market risk, management risk, credit risk, liquidity risk, operational risk, and leverage risk.

**Global Lower Carbon Equity fund investment process**

## Portfolio implementation




Source: HSBC Global Asset Management, for illustrative purposes only

**HSBC GIF Global Lower Carbon Equity Fund Facts**

| | |
|---|---|
| **Fund Launch Date:** | 27 September 2017 |
| **Share classes** | • Capital accumulation<br>• Monthly distribution<br>• Annual distribution |
| **Primary currency** | USD |
| **Alternative currencies** | • Currency share class: GBP<br>• Dealing currency[1]: SGD, HKD, EUR, GBP, AUD, CHF, JPY |
| **Portfolio managers** | Ed Gurung and Tiphaine Kannangara |
| **Fund domicile** | UCITS, Luxembourg SICAV |
| **Dealing** | Daily at 10:00am (CET) |
| **Valuation** | Daily at 5:00pm (CET) |
| **Management company** | HSBC Investment Funds (Luxembourg) S.A. |
| **Investment advisor** | HSBC Global Asset Management (UK) Limited. |
| **Minimum initial investment** | A share: USD5,000<br>B share: USD5,000 |
| **ISIN codes Capital Accumulation** | AC: LU1674673428<br>BC: LU1689524814<br>BCGBP: LU1674673931 |
| **ISIN codes Distribution** | AD: LU1674673691<br>BD: LU1689524905<br>BDGBP: LU1674674079 |

1. A dealing currency is not a separate share class.

# HGIF Global Lower Carbon Bond Fund

## Investment Strategy

Using a carbon-intensity score, we can identify the most carbon-efficient companies within each sector (i.e. with the lowest emissions for each dollar we will invest). Our analysts evaluate each issuer and compare it across sectors, to develop a comprehensive picture of its carbon impact. This enables us to eliminate issuers who are not carrying their weight.

**Our dynamic investment process** integrates a lead portfolio manager with global teams of analysts and portfolio managers. This structure supports the ongoing exchange of investment data and expertise necessary to capture expanding global opportunities.

## Research-driven, risk focused

There is always a risk that an issuer will not be able to repay the bond (“default”). Depending on the level of this risk, the issuer pays a higher or lower premium to make it worthwhile for investors to buy the bond. Identifying, pricing and combining these risks – to try and find the best “payoffs” – is at the core of our investment approach. Our global research teams provide top-down macroeconomic inputs, interest-rate research and forecasting.

The strategy is further supported by more than 40 locally-based credit researchers who provide detailed sector and issuer analyses.

## Global diversification using a sleeve structure

The lead portfolio manager spearheads portfolio construction and risk management, leverages local and global research, allocates assets tactically, and manages duration and target returns.

Holdings are subdivided into three regional sleeves (US/EUR/GBP).In today’s environment of transition towards a lower-carbon economy, the HSBC GIF Global Lower Carbon Bond Fund offers a solution to balance low-carbon targets with attractive bond returns.

## What are some of the risks when investing in this Fund?

**Interest rate and credit risks:** the fund invests in bonds which are subject to interest rate fluctuations and credit risks, such as risk of default by issuers.

**Capital at risk:** the value of investments and the income derived from them may fall or rise on a daily basis and investors may not get back their initial investment.

**Emerging markets risk:** the fund may invest in emerging markets which involve a greater risk of loss and are more volatile than more developed markets due to, among other factors, greater political, tax, economic, foreign exchange, liquidity, volatility and regulatory risks.

**High-yield bonds risk:** compared to investment-grade bonds, high-yield bonds are normally lower-rated securities usually offering higher yields to compensate for the reduced creditworthiness or increased risk of default that these securities carry.

**Counterparty risk:** the fund will be exposed to the credit risk on counterparties with which it trades and any default by such a counterparty (for example, due to insolvency) could result in substantial losses to the fund.

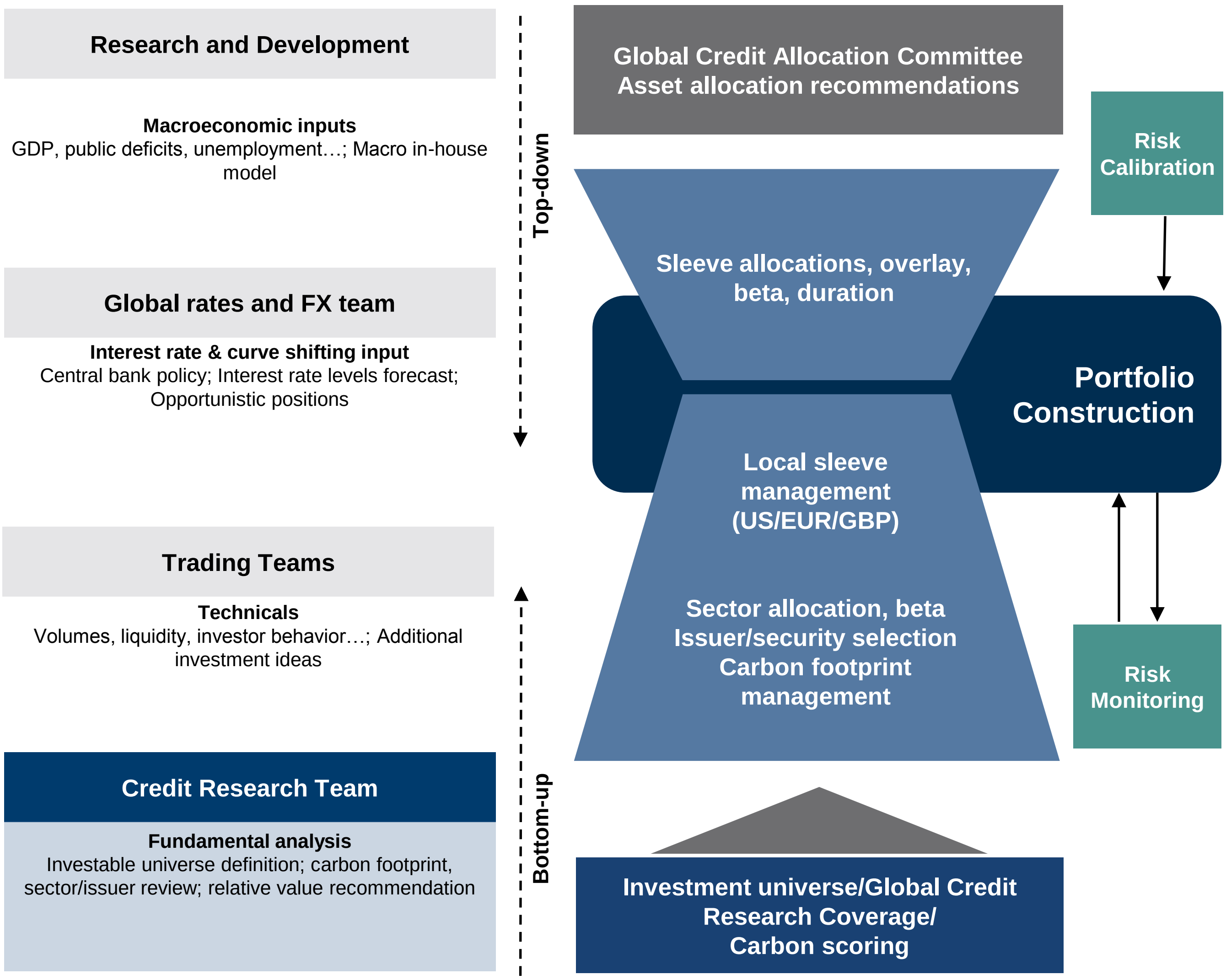
**Derivatives risk:** the fund may use derivative instruments, such as futures, swaps, forward contracts for hedging purposes and also, but not extensively, for investment purposes. Derivatives involve risks different from, and, in some cases, greater than, the risks presented by more traditional securities investments. Some of the risks associated with derivatives are market risk, management risk, credit risk, liquidity risk, operational risk, and leverage risk.

**Currency risk:** the fund’s reference currency is US dollar and the fund will normally invest in US dollar-denominated securities; however if the fund should have non-US dollar exposure then fluctuations in the exchange rates of these foreign currencies may affect the income and value of investments.

**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 market conditions.

# HGIF Global Lower Carbon Bond Fund

## Global Lower Carbon Bond Fund investment process




Source: HSBC Global Asset Management, for illustrative purposes only

**HSBC GIF Global Lower Carbon Bond Fund Facts**

| | |
|---|---|
| **Fund Launch Date:** | 27 September 2017 |
| **Share classes** | • Capital accumulation<br>• Monthly distribution<br>• Annual distribution |
| **Primary currency** | USD |
| **Alternative currencies** | • Currency share class: GBP<br>• Dealing currency[1]: SGD, HKD, EUR, GBP, AUD, CHF, JPY |
| **Portfolio managers** | Jerry Samet (lead fund manager) |
| **Fund domicile** | UCITS, Luxembourg SICAV |
| **Dealing** | Daily at 10:00am (CET) |
| **Valuation** | Daily at 5:00pm (CET) |
| **Management company** | HSBC Investment Funds (Luxembourg) S.A. |
| **Investment advisor** | HSBC Global Asset Management (USA) Inc. |
| **Minimum initial investment** | A share: USD5,000<br>B share: USD5,000 |
| **ISIN codes Capital Accumulation** | AC: LU1674672883<br>BC: LU1689525464<br><br>BCGBP: LU1674673261<br>ACHGBP: LU1689526355<br>ACHEUR: LU1689526272<br>ACHCHF: LU1689526439<br>BCHGBP: LU1689526942<br>BCHCHF: LU1689527080<br>BCHEUR: LU1689526868 |
| **ISIN codes Distribution** | AD: LU1674672966<br>AM2: TBC (Monthly distribution)<br>BD: LU1689525548<br><br>ADHEUR: LU1689526512<br>ADHGBP: LU1689526603<br>ADHCHF: LU1689526785<br>BDGBP: LU1674673345<br>BDHEUR: LU1689527163<br>BDHGBP: LU1689527247<br>BDHCHF: LU1689527320 |

1. A dealing currency is not a separate share class

# Glossary:

**Benchmark** – A standard against which the performance of a fund is measured. Funds usually choose an index to be the performance benchmark and the index will match the region or sector the fund invests in. For example, a fund investing in companies listed on the FTSE 100 will often use the FTSE 100 Index as a benchmark.

**Corporate bond** – A bond issued by a company to raise money. In return for lending the company money the investor will receive interest payments (coupon) plus the return of the original investment when the bond matures.

**Credits** - See corporate bond.

**Credit quality** - this is a bond's credit rating, as determined by one or more rating agencies such as Standard & Poor's, to indicate its creditworthiness or risk of default. Ratings range from Investment Grade ('AAA' to 'BBB') to High Yield ('BB' and below).

**Diversification** – A method by which a fund's investments are spread, for example, across different types of investments and countries. By doing so the fund's volatility can be minimised by the impact of a loss to any one investment being reduced by the rise of another.

**Duration** - is a measure of the sensitivity of the price of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. Bond prices are said to have an inverse relationship with interest rates. Therefore, rising interest rates indicate bond prices are likely to fall, while declining interest rates indicate bond prices are likely to rise.

**ESG** – Environmental, Social and Governance issues, taken into account when following Responsible Investment principles.

**Factors / multi-factor** – Characteristics of securities that carry long-term, systematic rewarded risks, such as value, momentum or quality. These are formalised style biases which will be familiar to many investors. A multi-factor fund invests in several factors at once.

**Fund** – A fund pools together the money from many individuals enabling a fund manager to invest all the money in the same way. Exactly what the fund manager buys depends on the investment objective of the fund.

**Issuer** – When talking about a corporate bond, the company that has issued this bond.

**Maturity** - the date at which the company will pay back the money ("capital") in full to investors. Bonds are impacted by changes in the interest rate. A bond's interest rates sensitivity is linked to its maturity: the longer the maturity of a bond is, the more sensitive it is to changes in the interest rate.

**Overlay** – This is an additional layer of management, allowing the lead fund manager to ensure the different sleeves of a fund are all aligned in terms of strategy, allocation, returns and risk.

**Risk-adjusted returns** – A way to measure how much risk is taken to obtain a given level of return.

**Security/Securities** – A term used to describe stocks, shares and bonds.

**Sleeve structure** – A way to manage a fund using the same strategy but different currencies, in parallel.

**Volatility** - Volatility is a measure of how much a fund or security's price goes up or down as a percentage of its total value. For example the price of a money market fund will typically change very little from day to day and has low volatility. A fund investing in shares is exposed to stock market variations and has a higher volatility. The higher the volatility of a fund, then generally the greater the investment risk.

**Important information**

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**The value of investments and any income from them can go down as well as up and investors may not get back the amount originally invested. Where overseas investments are held the rate of currency exchange may also cause the value of such investments to fluctuate. Investments in emerging markets are by their nature higher risk and potentially more volatile than those inherent in some established markets. Stock market investments should be viewed as a medium to long term investment and should be held for at least five years**.

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