

Invest for positive change that lasts for generations

## HSBC Global Equity Climate Change Fund of Fund

An open ended fund of fund scheme investing in HSBC Global Investment Funds – Global Equity Climate Change

Product Deck



**HSBC**  
Asset Management

24 January 2022

# Risk Numero UNO – Climate Change!

## Top 10 risks in terms of Likelihood

●	1	Extreme weather
●	2	Climate action failure
●	3	Natural disasters
●	4	Biodiversity loss
●	5	Human-made environmental disasters
●	6	Data fraud or theft
●	7	Cyberattacks
●	8	Water crises
●	9	Global governance failure
●	10	Asset bubbles in a major economy

- ◆ Climate change will impact company business models and earnings in three likely ways:
  - regulation or policies
  - direct
  - physical impacts and liability

## Top 10 risks in terms of Impact

●	1	Climate action failure
●	2	Weapons of mass destruction
●	3	Biodiversity loss
●	4	Extreme weather
●	5	Water crises
●	6	Information infrastructure breakdown
●	7	Natural disasters
●	8	Cyberattacks
●	9	Human-made environmental disasters
●	10	Infectious diseases

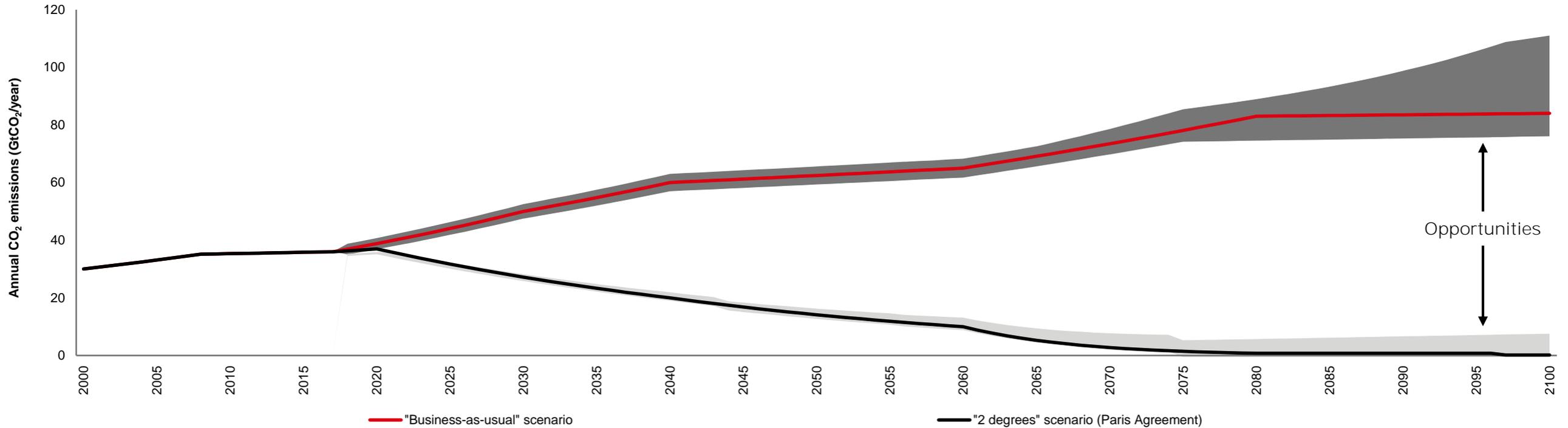
Categories  
 ● Economic ● Geopolitical ● Technological ● Environmental ● Societal

Climate change to impact corporate business models and earnings in three likely ways: Regulation or policies; Direct, Physical impacts and liability

Note:  
 1. World Economic Forum Global Risks Perception Survey 2020, 15h edition

# The current emissions trajectory is not sustainable

Business as usual vs. the Paris Agreement scenarios



- ◆ The Paris Climate Agreement has created a global regulatory framework to tackle climate change
- ◆ Investors globally are under pressure from regulators and beneficiaries to reduce climate risks in order to avoid profound investment implications

The Paris Climate Agreement is working as a Catalyst for change and provided one of the biggest investment opportunities

1. World Economic Forum Global Risks Perception Survey 2018, 13<sup>th</sup> edition  
Source: UNEP Emissions Gap Report 2016, GtCO<sub>2</sub>e = gigaton of carbon dioxide equivalent

# Climate Change - The opportunities beckon

Capturing the theme – solutions across 9 subthemes

## Renewable Energy



Sustainable transition away from fossil fuels will need to be USD110trn of investment in renewable energies cumulatively to 2050.<sup>1</sup>

## Energy Efficiency



Globally enhanced energy efficiency investments could boost cumulative economic output by USD18tr to 2035, increasing growth by 0.25-1.1% per year.<sup>2</sup>

## Clean Transport



Improved and digitalised planning in shipping could lead to fewer kilometers travelled, allowing for industry revenue benefits of USD1.5trn by 2025.<sup>3</sup>

## Green buildings



In emerging markets alone, Green Buildings are expected to be a USD24.7trn investment opportunity by 2030.<sup>4</sup>

## Sustainable Water & Wastewater Management



Water productivity improvements could cost USD60bn annually over the next two decades. Many of these investments yield positive returns in just three years.<sup>5</sup>

## Climate Change Adaptation



Research has shown that spending USD1.8trn on specific adaptation areas between 2020 and 2030 could generate USD7.1trn in total net benefits.<sup>6</sup>

Flood defences systems and related infrastructure information support systems, such as climate observation and early warning systems

## Pollution & waste prevention and control



Air pollution kills 7 million people each year, costing USD5tn/year.<sup>7</sup>

## Circular economy and resource efficiency



Switching to a circular economy could unlock an additional USD4.5trn of global GDP by 2030.<sup>8</sup>

Resource-efficient packaging and distribution  
Industrial carbon capture and storage technology

## Natural capital & ecosystems



Enhancing coastal wetlands could save the insurance industry USD52bn a year in reduced losses from storms and flood damage.<sup>9</sup>

Source: HSBC Asset Management

1. IRENA 2019, 2. New Climate Economy 2016, 3. Danfuss 2020, 4. FC 2019, 5. McKinsey 2019, 6. Global Commission on Adaptation 2019, 7. BAML 2020, citing UN 2019, 8. World Economic Forum, 9. Barbier et al 2019

# Big changes bring Big opportunities

Summary: Why invest in Climate Change and ESG theme?



Climate change - the ultimate megatrend



Addressing climate change - making your money matter



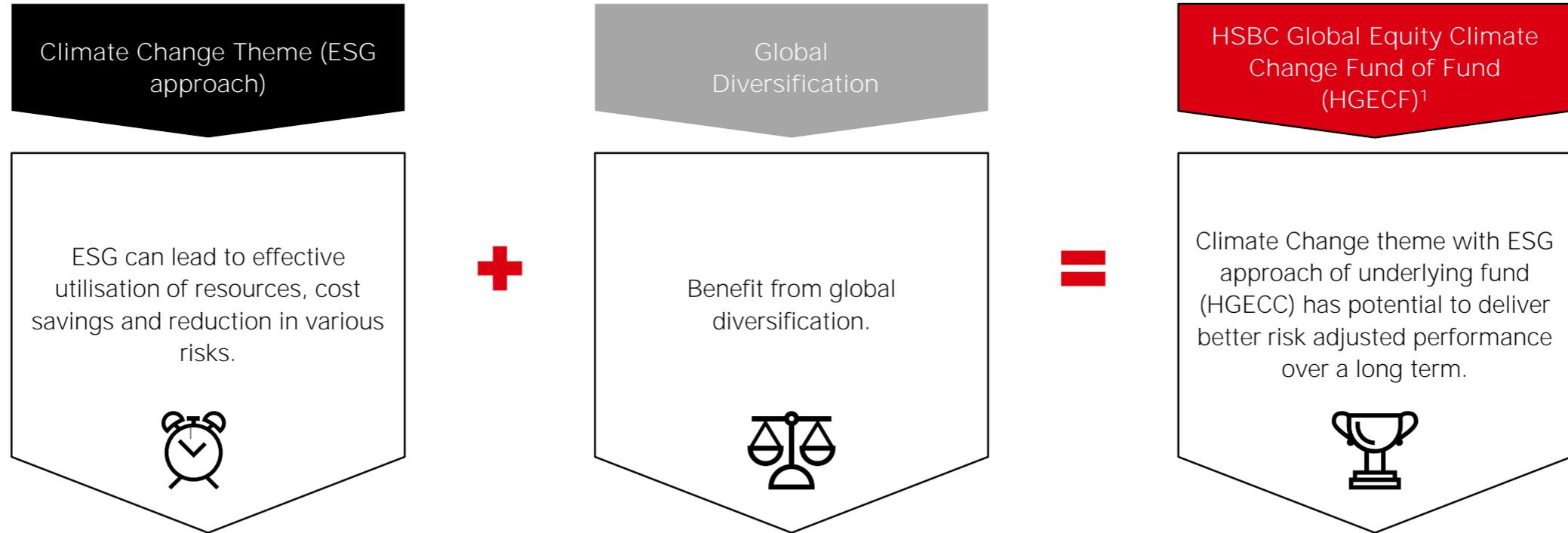
Pure thematic approach – solution focused



Profitable to be part of the solution, costly to be part of the problem

Climate Change theme with diversification benefit has potential to deliver better risk adjusted performance over a long term

# HSBC Global Equity Climate Change Fund of Fund (HGECF)<sup>1</sup> [Feeder Fund]



HSBC Global Equity Climate Change Fund of Fund<sup>2</sup> aims to provide long term capital appreciation by investing predominantly in units of HSBC Global Investment Funds – Global Equity Climate Change (HGECC). The Underlying fund aims to provide long-term total return by investing primarily in companies, listed in either developed or developing countries, that are positioned to benefit from efforts to adapt to climate change.

HGECF provides potential benefit of opportunities arising from Climate Change theme supported by ESG investment approach and global diversification

1. An open ended fund of fund scheme investing in HSBC Global Investment Funds – Global Equity Climate Change  
2. The Scheme may also invest a certain proportion of its corpus in money market instruments and/or units of overnight/liquid mutual fund schemes, in order to meet liquidity requirements from time to time. However, there is no assurance that the investment objective of the Scheme will be achieved.

# HSBC Global Investment Funds – Global Equity Climate Change [HGIF – Global Equity Climate Change] (HGECC)

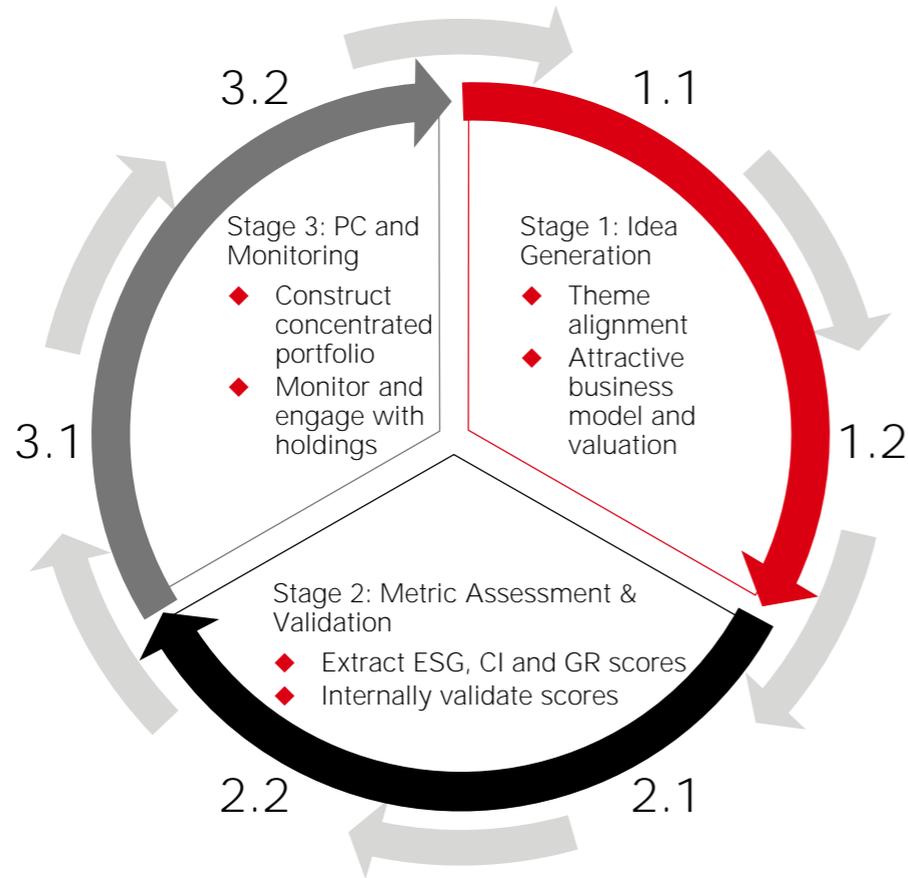
Underlying Fund – Portfolio Construction & Update



**HSBC**  
Asset Management

# Portfolio construction & monitoring - HGECC – Underlying Fund

## Identifying investment opportunities - From theme to portfolio



A robust investment process supervised by an experienced investment team of 7 dedicated specialists with over 19 years of average experience

### Stage 1: Idea Generation

- 1.1 Research companies which align with our nine climate change solution themes, and internal sustainability research expectations
- 1.2 Find attractive business models with valuations that meet our expectations

### Stage 2: Metric Assessment & Validation

- 2.1 Qualitatively assess the revenue base, carbon intensity and ESG characteristics of the company
- 2.2 Quantitatively validate the green revenues, carbon intensity and ESG scores

### Stage 3: Portfolio Construction & Monitoring

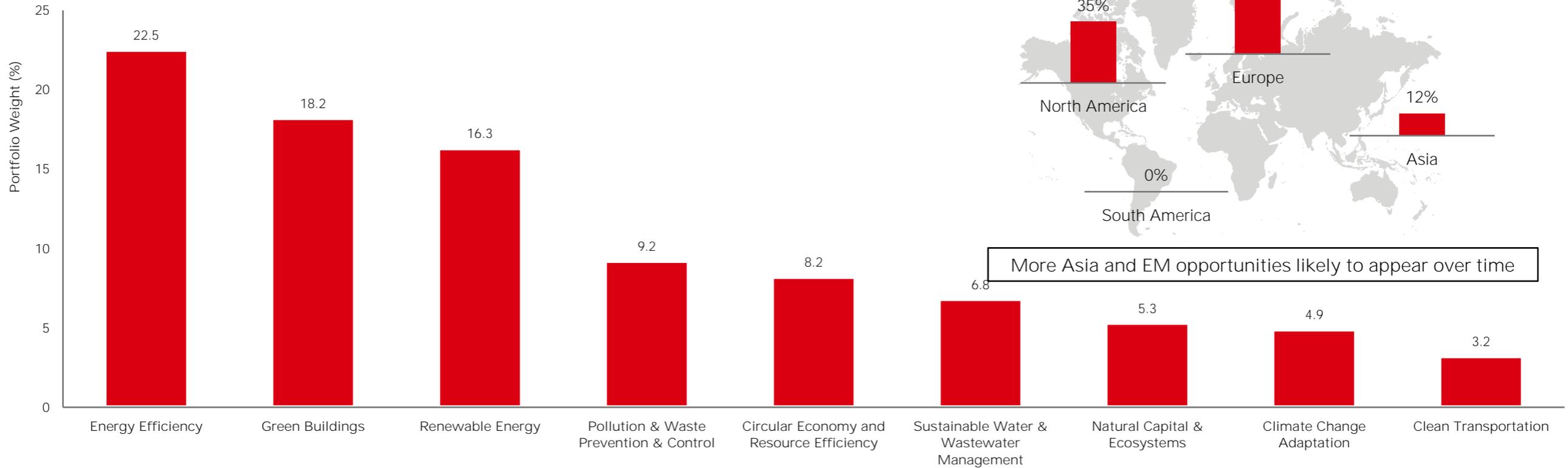
- 3.1 Construct a concentrated portfolio with a range of exposures by industry, size, country, and theme
- 3.2 Continuous monitoring of portfolio companies, including engagement and voting. This informs the research processes in earlier stages

Source: HSBC Asset Management. For illustrative purposes only.

# HGIF Global Equity Climate Change

## Thematic portfolio positioning

◆ Broad thematic/geographic exposure of 40-60 companies



More Asia and EM opportunities likely to appear over time

Energy efficiency remains bigger part of the portfolio but other themes are expected to gain weightage over the medium to long term

Source: HSBC Asset Management, Data as at December 2021. For illustration purpose only.  
For illustration purpose only. The information provided is for informational purposes only and should not be construed as a recommendation or solicitation for any security in the sectors referenced.  
Past performance should not be seen as an indication of future returns. The views expressed above were held at the time of preparation and are subject to change without notice.

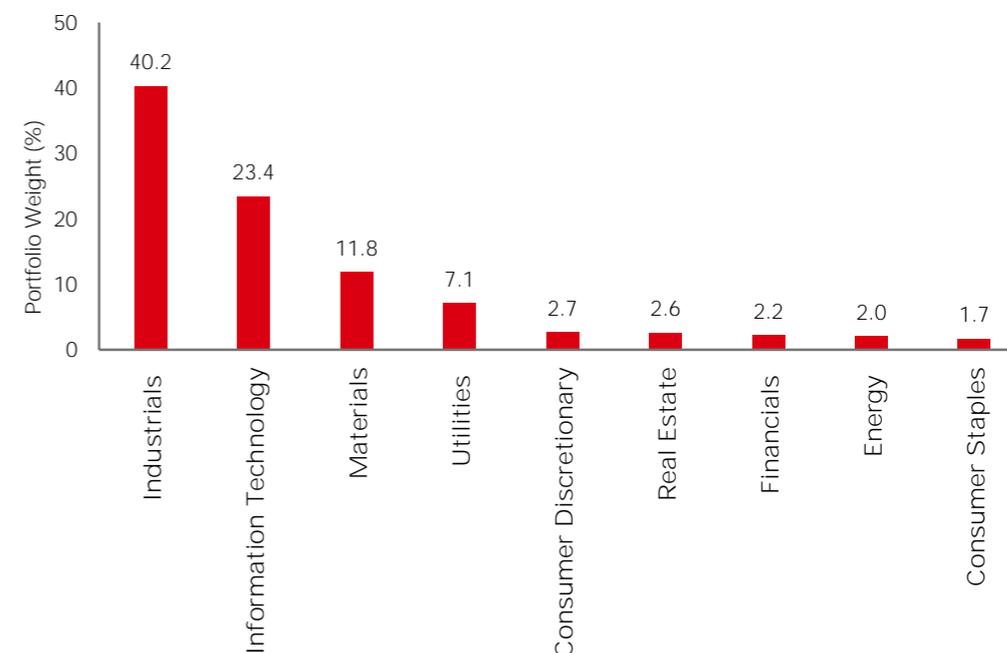
# HGIF Global Equity Climate Change - HGECC – Underlying Fund

## Portfolio & sector allocation

### Top 10 holdings

Holdings (%)	Country	Sector	Weight (%)
SCHNEIDER ELECTRIC SE	France	Industrials	3.8%
PRYSMIAN SPA	Italy	Industrials	3.7%
INFINEON TECHNOLOGIES AG	Germany	Information Technology	3.7%
MICROSOFT CORP	United Sates	Information Technology	3.6%
ACCENTURE PLC-CL A	United Sates	Information Technology	3.4%
KINGSPAN GROUP PLC	Ireland	Industrials	3.4%
Croda International Pls	United Kingdom	Materials	3.3%
TRANE TECHNOLOGIES PLC	United Sates	Industrials	3.2%
DEERE & CO	United Sates	Industrials	3.2%
ECOLAB INC	United Sates	Materials	3.2%

### Sector allocation



Sustainable investment ideas from a range of sectors

Source: HSBC Asset Management, Data as at December 2021

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# HGIF Global Equity Climate Change - HGECC – Underlying Fund

## Top active holdings subthemes and SDG alignment

	Subtheme	Core SDG	SDG Alignment	Additional SDG Alignment
Schneider Electric	Energy Efficiency – Schneider power products help industrial buildings like data centres reduce energy consumption		9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes	 
Prysmian	Renewable Energy – Prysmian ocean floor cabling connects offshore wind turbines to the grid		7.2 By 2030, increase substantially the share of renewable energy in the global energy mix	 
Infineon Tech	Energy Efficiency – Infineon semiconductors enable electric vehicles to use energy more effectively		7.3 By 2030, double the global rate of improvement in energy efficiency	 
Deere & Co	Natural Capital & Ecosystems – Deere provides farmers with tools to increase crop yields with lower environmental impact		2.4: By 2030, ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality	 
Ecolab	Sustainable Water & Wastewater Management – Ecolab services help industries reduce their on site water use		6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally	 

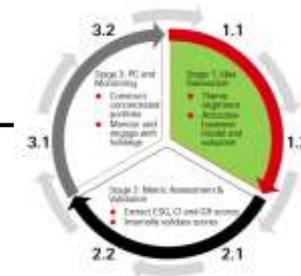
Sustainable investment ideas from a range of subthemes

Source: HSBC Asset Management, Data as at December 2021,

SDG – Sustainable Development Goals of UN. For illustration purpose only. The information provided is for informational purposes only and should not be construed as a recommendation or solicitation for any security in the sectors referenced. Past performance should not be seen as an indication of future returns. The views expressed above were held at the time of preparation and are subject to change without notice.

# Sustainability themed investing: Stock example

## Summary



### Thematic Exposure

- ◆ Deere provides farm machinery and cutting-edge technology to help farmers grow produce and manage their land efficiently
- ◆ Rising global demand for food and regulatory pressures on agrochemical usage are driving farmers to enhance crop yields and reduce inefficient use of chemicals by adopting new technologies like precision agriculture

### Business Model Analysis

- ◆ GDP + 1-2% growth from population growth and precision agriculture adoption
- ◆ Competitive advantage comes from R&D capabilities and strong dealer relationships
- ◆ Large installed base of Deere's solutions positions it well to roll out new technologies to customers
- ◆ Management has developed a long-term culture of driving innovation



### Stakeholder Due Diligence

- ◆ Deere has fostered multi-generational relationships with customers over its 184 year history by meeting the changing needs of the farmer community
- ◆ The company's long-term thinking has enabled it to embed a wider purpose in the organisation, which includes protecting the world's natural resources

### Valuation Framework

- ◆ Required return of 8%
- ◆ The business generated \$4.4bn of operating free cash flow, returning a large portion back to shareholders
- ◆ Current valuation does not discount our optimistic view on the growth opportunities in precision agriculture and margin expansion potential
- ◆ Return on invested capital of ~13%

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Source: HSBC Asset Management, Data as at August 2020. For illustrative purposes only and does not constitute any investment recommendation in the above mentioned companies. This example is historic, contains information that is not current and should not be construed as an offer to sell or a solicitation of an offer to purchase or subscribe to any investment.

# The Investor benefits...

Global investments offer multiple benefits

1

## Geo Diversification

- ◆ Different geographical economies may deliver varying and contrasting risk adjusted performance in various economic and investment cycles

2

## Risk Diversification

- ◆ Provides geographical and sectorial diversification leading to risk reduction
- ◆ Helps in diversifying a predominantly domestic portfolio

3

## Themes diversification

- ◆ Provides opportunities to invest in various themes

4

## Access global brands

- ◆ Broader access to different markets & global brands. e.g. Samsung, Google, Apple, Alibaba, etc.

5

## Investment ratings

- ◆ Countries have different investment rating grades
- ◆ Investing in highly rated countries in volatile times may benefit

6

## Contra Beneficiaries

- ◆ Access contra investments e.g. Export oriented – Non export oriented, Oil Exporters – Non Oil importers

7

## Impact of Economic Indicators

- ◆ Interest rates, Inflation and Liquidity affects the consumption of the Global Economy
- ◆ This effect could be variable and may have varied effect on different economies

8

## Benefit from developed & emerging economies

- ◆ Developed economies have substantial investment capital but depend more on the global growth due to relatively lower internal consumption
- ◆ Emerging/developing economies are more dependent on external investments to support strong internal consumption

9

## Currency benefit

- ◆ Currency adjusted investment performance may vary from country to country
- ◆ Investors may access potential currency adjusted performance benefit through global investments

Inclusion of Global investments in the portfolio offers necessary risk diversification over the long term and can support the delivery of sustainable risk adjusted performance

# Key takeaways

## Climate change – the ultimate megatrend



### Climate change – the ultimate megatrend

- ◆ Rising demand for transformational changes to address climate risks
- ◆ We are well-positioned to benefit from the resultant tectonic investment disruption



### Pure thematic approach – solution focused

- ◆ Investing in innovative companies that offer the best solutions for the climate challenge
- ◆ High conviction portfolio driven by active fundamental analysis



### Addressing climate change - making your money matter

- ◆ Investing in lower carbon footprint, higher ESG, net zero commitment
- ◆ Offering a unique opportunity to substitute a core global equity allocation
  - Better portfolio carbon intensity score
  - Greater Portfolio ESG score



### Profitable to be part of the solution, costly to be part of the problem

- ◆ Investing in sustainability funds  $\neq$  sacrificing investment returns
- ◆ Our fund has outperformed the market and competitors



### HSBC helping to finance the energy transition

- ◆ Commitment to responsible investing -World's Best Bank for Sustainable Finance<sup>1</sup>
- ◆ Well-resourced team of investment experts and extensive resources

Source: HSBC Asset Management.

1. Euromoney 2020 "World's Best Bank for Sustainable Finance".

Source: HSBC Holdings Plc, as at 31 December 2020, unless otherwise indicated. Past performance should not be seen as an indication of future returns. For illustrative purposes only.

# HSBC Global Equity Climate Change Fund of Fund (HGECF) [Feeder Fund]

Investment Objective

- ◆ To provide long term capital appreciation by investing predominantly in units of HSBC Global Investment Funds – Global Equity Climate Change (HGECC). The Scheme may also invest a certain proportion of its corpus in money market instruments and/or units of overnight/liquid mutual fund schemes, in order to meet liquidity requirements from time to time. However, there is no assurance that the investment objective of the Scheme will be achieved

Benchmark

- ◆ MSCI AC World TRI<sup>1</sup>

Where will the scheme invest?

- ◆ The corpus of the Scheme will be predominantly invested in the units of HSBC Global Investment Funds - Global Equity Climate Change. The Scheme may also invest a certain proportion of its corpus in money market instruments and/or units of overnight/liquid mutual fund schemes, in order to meet liquidity requirements from time to time

Fund Managers

- ◆ B Aswin Kumar

## Asset Allocation

Type of Instruments	Indicative asset allocation (% of total assets)		
	Minimum	Maximum	Risk Profile
Shares of the underlying Fund i.e. HSBC Global Investment Funds – Global Equity Climate Change	95%	100%	High
Money Market instruments (including TREPS & reverse repo in government securities) and units of liquid & overnight mutual funds	0%	5%	Low to Medium

HSBC Global Equity Climate Change Fund of Fund Riskometer		
<p><b>HSBC Global Equity Climate Change Fund of Fund</b></p>  <p>Investors understand that their principal will be at Very High risk</p>	<p><b>Fund of Funds (Overseas)</b> - An open ended fund of fund scheme investing in HSBC Global Investment Funds – Global Equity Climate Change</p> <p><b>This product is suitable for investors who are seeking<sup>##</sup>:</b></p> <ul style="list-style-type: none"> <li>• To create wealth over long term.</li> <li>• Investment predominantly in companies positioned to benefit from climate change through fund of funds route</li> </ul> <p><sup>##</sup>Investors should consult their financial advisers if in doubt about whether the product is suitable for them.</p> <p><small>*Please note that the above risk-o-meter is as per the product labelling of the Scheme available as on the date of this communication/disclosure. As per SEBI circular dated October 5, 2020 on product labelling (as amended from time to time), risk-o-meter will be calculated on a monthly basis based on the risk value of the scheme portfolio based on the methodology specified by SEBI in the above stated circular. The AMC shall disclose the risk-o-meter along with portfolio disclosure for all their schemes on their respective website and on AMFI website within 10 days from the close of each month. Any change in risk-o-meter shall be communicated by way of Notice cum Addendum and by way of an e-mail or SMS to unitholders of that particular Scheme.</small></p>	<p><b>Benchmark: MSCI AC World TRI</b></p> 

**Note on Risk-o-meters:** Please note that the above risk-o-meter is as per the product labelling of the scheme available as on the date of this communication/ disclosure. As per SEBI circular dated October 05, 2020 on product labelling (as amended from time to time), risk-o-meter will be calculated on a monthly basis based on the risk value of the scheme portfolio based on the methodology specified by SEBI in the above stated circular. The AMC shall disclose the risk-o-meter along with portfolio disclosure for all their schemes on their respective website and on AMFI website within 10 days from the close of each month. Any change in risk-o-meter shall be communicated by way of Notice cum Addendum and by way of an e-mail or SMS to unitholders of that particular scheme.

1. The Fund reserves the right to change the benchmark for evaluation of the performance of the Scheme from time to time, subject to SEBI Regulations and other prevailing guidelines, if any. Note: For complete details on where scheme will invest, please refer to the Scheme Information Document of HSBC Global Equity Climate Change Fund of Fund. MSCI ACWI TRI = MSCI All Country World Net Return Index (MSCI ACWI NR). HSBC Global Equity Climate Change Fund of Fund (HGECF) - An open-ended fund of fund scheme investing in HSBC Global Investment Funds – Global Equity Climate Change. Note: For complete details on asset allocation of the scheme, please refer to the Scheme Information Document of HSBC Global Equity Climate Change Fund of Fund.

# Annexure

- ◆ Idea generation – thematic
- ◆ Explanation on Climate change themes
- ◆ ESG approach, integration & performance
- ◆ Global Investment Team



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# Sustainability themed investing: Stock example - Deere

## Metric Assessment & Validation



Metric	Tools and Data Used	Kingspan
ESG Score	<p>MSCI &amp; HSBC Internal scores as first points of call</p> <p>Internal analyst verification of these scores, involving reading about company, researching its relationships with key stakeholders. Direct engagement with company and its stakeholders if required.</p>	2% higher
Exclusion Criteria	<p>HSBC Internal data (from Sustainalytics) on UNGC compliance</p> <p>Firm wide exclusions (cluster munitions etc) also applied</p>	<p>✓</p> <p>✓</p>
Green Revenue	<p>FTSE Russell Green Revenues Database as first point of call</p> <p>Internal analyst verification of FTSE analysis, and integration of internal sustainability research into our own view of whether FTSE analysis makes sense as part of one of our nine themes</p> <p>If candidate is not rated by FTSE Russell GR, internal assessment used, following conservative estimate of current revenue base and its link to one (or more) of the 9 themes</p>	34%
Carbon Intensity	<p>Trucost Data for entire global universe updated monthly. Trucost data for company is checked against MSCI and internal CO2 emissions estimates. Also, internal analyst work to sense check the data and anticipate if the CI could change significantly in future (eg a business division sale could lower revenues and thus increase CI)</p>	83% lower

Source: HSBC Asset Management. For illustrative purposes only and does not constitute any investment recommendation in the above mentioned companies.

# Sustainability themed investing: Stock example - Infineon Technologies

## Summary



### Investment case

- ◆ Infineon is a leading provider of power semiconductors, microcontroller, sensors and radio frequency components
- ◆ It has a top 3 market share position in each of their product segments

### Idea generation

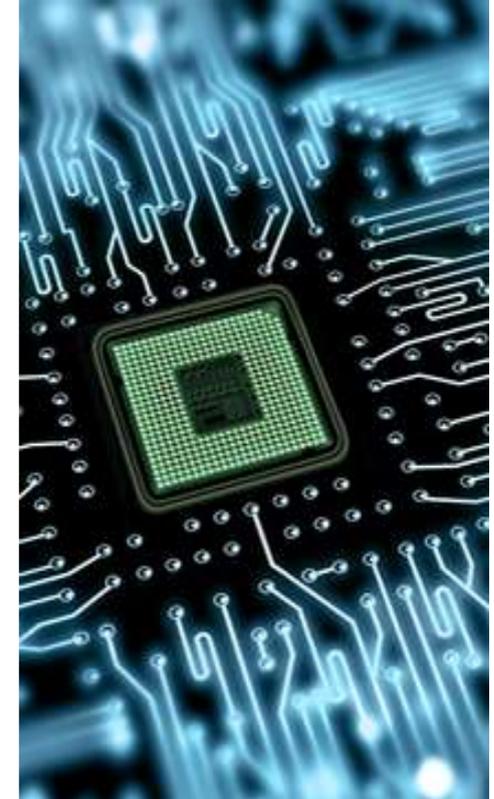
- ◆ The strength of their intellectual property creates barriers to entry, and longer design cycles adds stability to earnings
- ◆ Automotive: the rise of autonomous vehicles and the need to reduce CO<sub>2</sub> output has increased semiconductor demand
- ◆ Industrial power control: the increase in renewable energy projects and electric vehicle charging stations is likely to have benefits
- ◆ Smart devices: a supplier of key components in the production of smartphones, which has been a growth driver and will likely continue to with the rollout of 5G

### Investment theme

- ◆ Energy Efficiency: semiconductors reduce the energy consumed by electronic devices
- ◆ Renewable Energy: leading power devices and subsystems for renewables enable efficient energy transmission and storage
- ◆ Clean Transportation: efficient semiconductors for electric drivetrains and CO<sub>2</sub> reduction

### Sustainability focus

- ◆ ESG leader: Infineon has a very high ESG rating amongst ESG ratings providers, which we believe is justified
- ◆ A substantial proportion of the company's products are aligned with safer and greener products in transportation. These will be enduring trends to support revenue growth
- ◆ The company invests over 10% of revenue in R&D annually, and has industry leading employee attraction and retention policies. Both business strategies can support sustainable long term returns

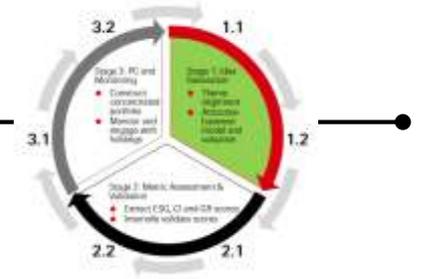


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# Sustainability themed investing: Stock example - Verisk

## Summary



### Investment case

- ◆ Verisk is the leading global data analytics provider for the Insurance and Energy industry, with its data and solutions deeply embedded in the largest property and casualty insurers, energy companies and financial institutions

### Idea generation

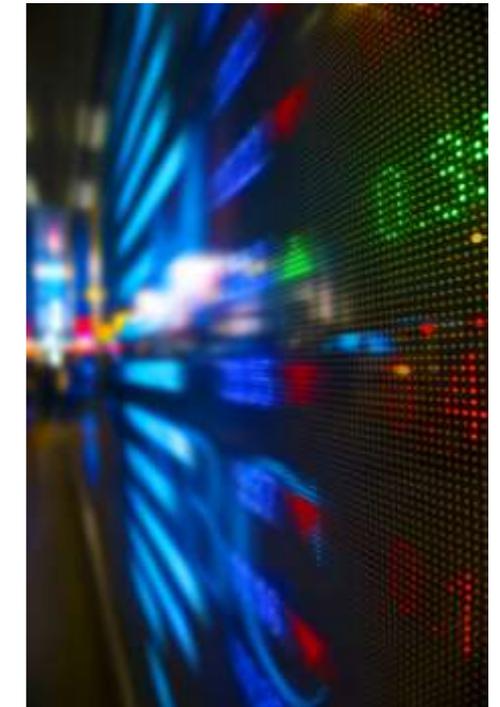
- ◆ The unique insurance claims and loss dataset is hard to replicate by new entrants and leads to pricing power
- ◆ The insurance industry is ripe for digital disruption, including automation of processes and implementation of data-driven underwriting and claims workflows
- ◆ Shifting energy production from hydrocarbons to renewable sources increases the need for a reliable database on renewable energy assets

### Investment theme

- ◆ Energy Transition: renewable asset database to inform future renewable investments
- ◆ Climate change: catastrophe modelling for loss quantification on extreme climate events
- ◆ Weather risk: sensor technology to predict weather risks for business and government planning

### Sustainability focus

- ◆ ESG improver: Verisk has a moderate MSCI rating which we think will improve over time. In particular we think the company's commitment to staff is exceptional and will be important for its future growth
- ◆ Verisk's products improve economic resilience by helping insurers price risks better. We think this sustainable development impact of their business is under-appreciated by investors
- ◆ We have engaged with the company on how they manage the pricing of their services, given their strong industry position. We are comfortable that the company has a sustainable pricing philosophy centred on adding greater value for clients



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# Climate transition themes – HGECC (Underlying Fund)

## Solutions and opportunities

	Theme	Examples	Opportunity
Renewable Energy		<ul style="list-style-type: none"> <li>◆ Renewable electricity generation - wind, solar, marine power</li> <li>◆ Manufacture of components of renewable energy</li> <li>◆ Construction/maintenance/expansion of associated distribution and transmission networks</li> </ul>	<ul style="list-style-type: none"> <li>◆ To achieve a sustainable transition away from fossil fuels there will need to be USD110tn of investment in renewable energies cumulatively by 2050<sup>1</sup></li> <li>◆ For every \$1 spent for the energy transition, there would be a payoff of between \$3 and \$7 to 2050</li> </ul>
Energy Efficiency		<ul style="list-style-type: none"> <li>◆ Development of products or technology that reduces energy consumption</li> <li>◆ Manufacture of components to enable energy efficiency</li> <li>◆ Digital solutions that meaningfully reduce energy/fuel consumption or material use</li> </ul>	<ul style="list-style-type: none"> <li>◆ USD18trn to 2035, increasing growth by 0.25-1.1% per year<sup>2</sup></li> <li>◆ Energy management technologies are growing and will be a USD30bn market by 2020<sup>3</sup></li> <li>◆ On average, every EUR1 invested in energy efficiency saves EUR 3 over the lifespan of a technology<sup>4</sup></li> </ul>
Clean Transport		<ul style="list-style-type: none"> <li>◆ Low energy or emission transportation products, components and services including electric, hybrid, public, rail, and infrastructure for clean energy vehicles</li> </ul>	<ul style="list-style-type: none"> <li>◆ Low emission passenger car technologies are growing at 30% annually, and will be a near USD400bn global industry by sales in 2020<sup>3</sup></li> <li>◆ Improved and digitalised planning in shipping could lead to fewer km travelled, allowing for industry revenue benefits of USD1.5trn by 2025<sup>5</sup></li> </ul>

Low emission passenger car technologies are growing at 30% annually

Any forecast, projection or target when provided is indicative only and is not guaranteed in anyway. HSBC Global Asset Management accepts no liability for any failure to meet such forecast, projection or target.

Source: HSBC Global Asset Management

1. IRENA 2019
2. New Climate Economy 2016
3. McKinsey 2019
4. Danfuss 2020
5. World Economic Forum 2019

# Climate change themes (cont'd) – HGECC (Underlying Fund)

## Solutions and opportunities

	Theme	Examples	Opportunity
Green Building		<ul style="list-style-type: none"> <li>◆ New construction building developments or renovation of existing buildings, which meet recognised environmental standards</li> <li>◆ Buildings management that target specific reduction in energy, water use (e.g. green leases)</li> <li>◆ Building materials or technology (e.g. insulation) that reduce energy, and water use</li> </ul>	<ul style="list-style-type: none"> <li>◆ In emerging markets alone, Green Buildings are expected to be a USD24.7trn investment opportunity by 2030<sup>1</sup></li> <li>◆ The market for building environmental efficiency products and services is expected to grow to USD360bn by 2040, up from USD134bn in 2016<sup>2</sup></li> </ul>
Sustainable water and wastewater management		<ul style="list-style-type: none"> <li>◆ Water collection, treatment, recycling, re-use, technologies and related infrastructure</li> <li>◆ We target a minimum water efficiency improvement of 20% compared to the baseline (where available)</li> </ul>	<ul style="list-style-type: none"> <li>◆ Closing the gap between water supply and demand by deploying water productivity improvements could cost USD60 billion annually over the next two decades. Many of these investments yield positive returns in just three years<sup>3</sup></li> <li>◆ The number of people living in water scarce or water stressed areas is expected to rise from 1 billion in 2005 to 3.5 billion by 2025<sup>4</sup></li> </ul>
Climate change adaptation		<ul style="list-style-type: none"> <li>◆ Flood defences systems and related infrastructure information support systems, such as climate observation and early warning systems</li> <li>◆ Sustainable pest control</li> </ul>	<ul style="list-style-type: none"> <li>◆ Research has shown that spending USD1.8trn on specific adaptation areas between 2020 and 2030 could generate USD7.1trn in total net benefits through avoided losses, economic benefits, and socio-environmental gains<sup>5</sup></li> <li>◆ An analysis of 1,300 known invasive pests and pathogens estimated their potential cost to global agriculture at over USD540bn per year if they continue to spread in large part due to climate change<sup>6</sup></li> </ul>

The market for building environmental efficiency products and services is expected to grow to USD360bn by 2040

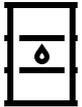
Any forecast, projection or target when provided is indicative only and is not guaranteed in anyway. HSBC Global Asset Management accepts no liability for any failure to meet such forecast, projection or target.

Source: HSBC Global Asset Management

1. FC 2019
2. International Energy Agency 2018
3. McKinsey 2019
4. World Bank
5. Global Commission on Adaptation 2019
6. Kew 2017

# Climate change themes (cont'd) – HGECC (Underlying Fund)

## Solutions and opportunities

	Theme	Examples	Opportunity
Pollution and waste prevention and control		<ul style="list-style-type: none"> <li>◆ Products or technology contributing to (non-transport) reduction of air emissions (NOx, SOx, particulates etc.)</li> <li>◆ Sustainable waste management – Waste minimisation, collection, management, recycling, re-use, processing, disposal (such as methane capture) products, technologies and solutions</li> </ul>	<ul style="list-style-type: none"> <li>◆ Air pollution kills 7 million people each year, costing USD5trn/year<sup>1</sup></li> <li>◆ Palladium, a metal used as a catalyst to reduce toxic fumes from car exhausts, has risen in price by 12% CAGR for the last decade and is now considerably more valuable than gold per Oz</li> </ul>
Circular economy and resource efficiency		<ul style="list-style-type: none"> <li>◆ Resource-efficient packaging and distribution</li> <li>◆ Industrial carbon capture and storage technology</li> </ul>	<ul style="list-style-type: none"> <li>◆ Switching to a circular economy could unlock additional USD4.5trn of global GDP by 2030 as a result of resources being better utilised and more jobs being created in higher-skilled industries<sup>2</sup></li> <li>◆ Marine plastic alone is estimated to cost the world between USD250bn and USD2.5trn annually<sup>3</sup></li> </ul>
Natural capital and ecosystems		<ul style="list-style-type: none"> <li>◆ Environmentally sustainable agriculture</li> <li>◆ Environmentally sustainable fishery and aquaculture/products</li> <li>◆ Environmentally sustainable forestry/forestry products</li> <li>◆ Sustainably sourced food and meat alternatives</li> </ul>	<ul style="list-style-type: none"> <li>◆ USD44trn of global economic value is moderately or highly dependent on nature and its services<sup>4</sup></li> <li>◆ Enhancing coastal wetlands could save the insurance industry USD52bn a year in reduced losses from storms and flood damage<sup>5</sup></li> </ul>

Switching to a circular economy could unlock additional USD4.5trn of global GDP by 2030

Any forecast, projection or target when provided is indicative only and is not guaranteed in anyway. HSBC Global Asset Management accepts no liability for any failure to meet such forecast, projection or target.

Source: HSBC Global Asset Management

1. BAML 2020, citing UN 2019
2. World Economic Forum
3. Beaumont et al 2019
4. WEF 2020
5. Barbier et al 2019

What is an ESG concept?

ESG investing is guided by Environmental, Social and Governance (ESG) criteria to generate better risk adjusted returns over a long term.

Environmental



> How companies manage their impact on the environment:

- ◆ Climate change
- ◆ Greenhouse gas (CO2) emissions
- ◆ Resource depletion (Conserve energy)
- ◆ Water and Energy use
- ◆ Waste and pollution
- ◆ Deforestation

Invest in eco friendly companies

Social



> How companies manage relationships with employees, clients and communities:

- ◆ Regard for human rights
- ◆ Development and treatment of staff
- ◆ Oversight of their supply chain
- ◆ Health and safety of stakeholders
- ◆ Product liability
- ◆ Diversity and equality

Invest with those who invest for the greater good

Governance



> How companies are governed or managed:

- ◆ Transparency and Executive pay
- ◆ Business ethics and culture
- ◆ Political lobbying and donations
- ◆ Board structure
- ◆ Regard for shareholder rights
- ◆ Policy on anti bribery and corruption

Invest, where there is transparency

ESG helps focus on businesses which have low risk of penalties, higher taxes and frauds

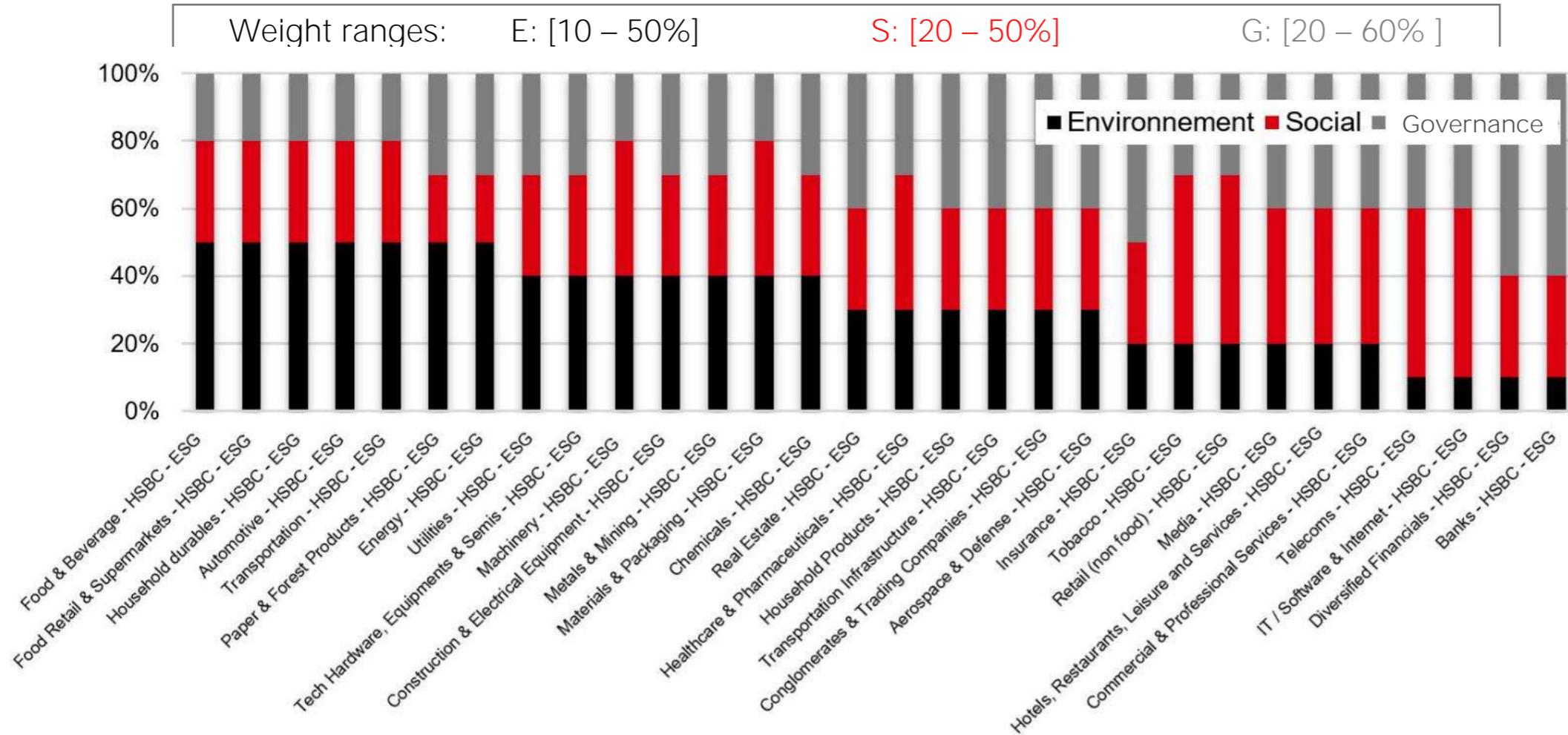
# ESG in corporates

E						Corporate with efficient processes and alternatives to save environment or prevent/reduce climate change will have advantage over other companies.
	Air Pollution	Deforestation	Water Contamination	Climate Change	Waste Management	
Alternative to save Environment	Shift to electric vehicles	Shift to Digital, find alternatives	Water treatment	Shift to mass transportation	Waste treatment	
Gainers/Losers	Electric car makers	Digital, Innovative startups	Water Management COs	Metro, Hyperloop, Waterway COs	Losers - waste generator Cos	
S						The companies with sense of Social responsibility and those who create trustworthy brands are expected to gain over a long term.
	Employee strikes	Employee management	Products that give what people need	Data Security	Eco Products	
Social angle	Employee management	Corporate: Unfair employee policy	Affordable Housing	Shift to trusted brands	Recycle, Reusable product	
Gainers/Losers	Best employers	Losers - Worst employers	Customer centric Real estate COs	Corporate that follow social duty	CO's focused on reusable product	
G						Entities which apply strict positive internal controls, remain transparent and follow government regulations seriously are expected to gain in coming years.
	Regulatory issues	Whistleblower complaints	Money laundering & corruption	Financial frauds	Independent Directors	
Follow strict Governance	Internal, External policies	Internal guidelines	No processes to avoid misuses	Internal & External Audits	Strong governance	
Gainers/Losers	CO's with strong internal controls	Transparent process COs	Losers - Cos No policy to stop corruption	Strong audit driven corporate	COs with strong governance	
Portfolio overweight on companies with best ESG practices could be a potential gainer over a long term						

# ESG mapping – a proprietary tool

30 sectors that reflect the specific issues of each industry

◆ GICS^ ESG weightings: 30 proprietary ESG combinations reflect the nature of each industry



Source: HSBC Global Asset Management as of 31 January 2020. For illustrative purposes only. ^GICS - GLOBAL INDUSTRY CLASSIFICATION STANDARD (GICS®)  
 Characteristics and measures are provided for illustrative purposes only and are subject to change in line with market developments.

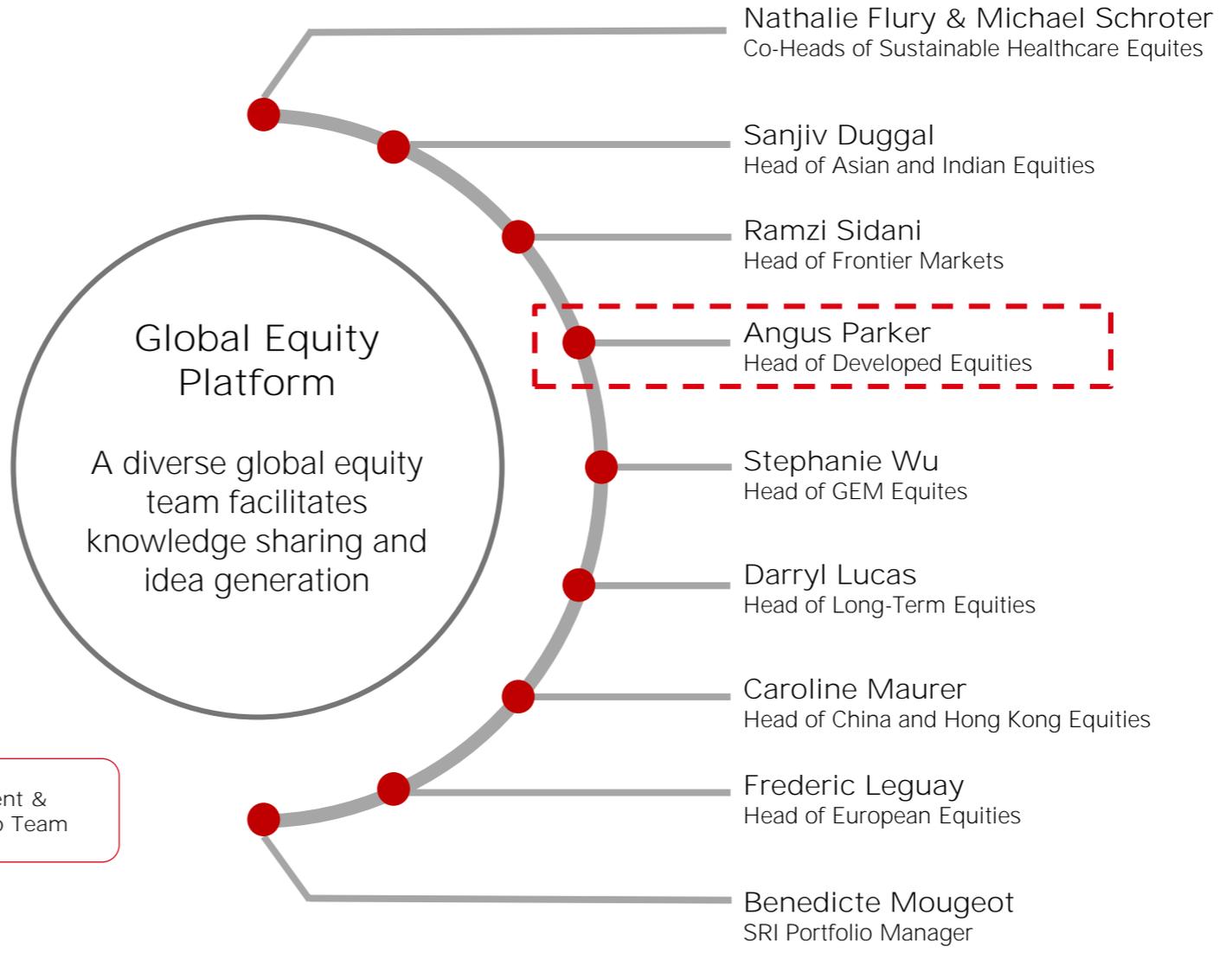
# Investment team – HGECC (Underlying Fund)

## Part of the diverse Global Equity Platform



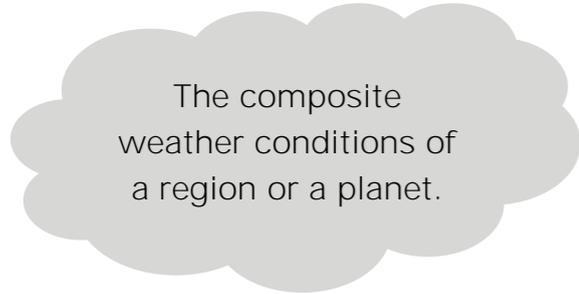
Angus Parker  
Head of the Developed Equities  
Climate Change Lead PM

- ◆ Angus has been working in the financial industry since 1993
- ◆ He is responsible for managing global equity portfolios
- ◆ Prior to joining the firm in 2004, Angus worked for Lazard Asset Management
- ◆ Angus holds an MA degree from the University of Edinburgh (UK). He is an Associate of the Institute of Investment Management and Research (AIIMR)



# Climate – One Change We Need To STOP

## Climate



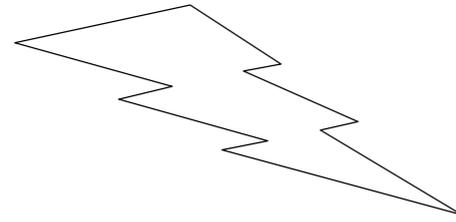
### Major types of climate on earth

- ◆ Tropical
- ◆ Dry
- ◆ Temperate
- ◆ Continental
- ◆ Polar

### How long do we have to stop climate change?

- 1/3<sup>rd</sup> of all plant and animal species could be extinct by 2070 due to climate change<sup>2</sup>
- To limit global warming by 2100 involves cutting net human carbon dioxide (CO<sub>2</sub>) emissions 45% by 2030 and then to zero by 2050<sup>1</sup>

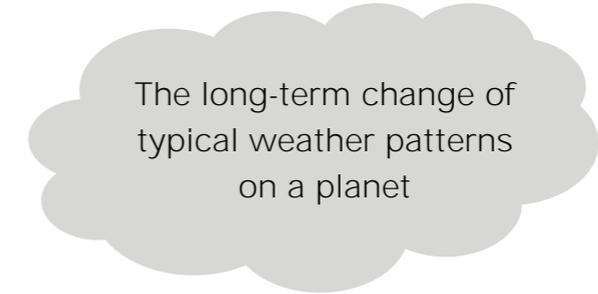
## Alteration causes



### Causes of Climate Change

- ◆ Human activities
- ◆ The earth's temperature imbalance
- ◆ The greenhouse gases effect
- ◆ Sun's energy intensity
- ◆ Temperature of ocean currents
- ◆ Air pressure imbalance
- ◆ Volcanic eruptions

## Climate Change



### Impact of Climate Change

- ◆ Global warming/temperature rise
- ◆ Extreme climate events
- ◆ Changes in rainfall pattern
- ◆ Snowfall pattern changes
- ◆ Heavy rainstorms
- ◆ Longer droughts
- ◆ Sea level changes
- ◆ Extreme flooding
- ◆ Melting Glaciers

- Next 10 years are crucial to avoid beginning of climate change
- Corporates, people and tools which can help achieve above targets to retain climate balance are likely to provide big opportunities

Climate Change needs a co-ordinated global action and investment planning

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