

## Product Note

### HSBC Global Equity Climate Change Fund of Fund (HGEF)

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

January 2023

#### Investment Objective

HSBC Global Equity Climate Change Fund of Fund's Investment Objective - To provide long term capital appreciation by investing predominantly in units of HSBC Global Investment Funds – Global Equity Climate Change (HGEC). 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.

## Climate Change - The opportunities beckon



#### 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 USD24.7 trillion investment opportunity by 2030.<sup>4</sup>



#### Sustainable Water & Wastewater Management

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>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>

Clean transport, clean energy, water management are some of the themes with great potential

## HGIF Global Equity Climate Change (HGECC) – Monthly Commentary

- Contributors to relative performance included USA holding, FIRST SOLAR (Information Technology) with a total effect of 0.51%. Additionally, USA security, DEERE & (Industrials) was in the top two contributors with a total effect of 0.38%.
- Detractors included USA security, BALL (Materials) with a total effect of -0.51%, and Japanese holding SHIMADZU (Information Technology) with a total effect of -0.39%.
- During this period, positions were closed in OATLY GROUP AB and AZURE POWER GLOBAL.
- Sector and country allocation effects are residual to stock selection. At the country level, effects were negative, given an overweight exposure to Sweden. At the sector level, effects were negative, given an underweight exposure to Financials.

Data as on 31 Dec 2022,

Source: HSBC Global Asset Management, HGIF Global Equity Climate Change underlying fund commentary, Bloomberg

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

## INVESTMENT COMMENTARY – ACTIVE GLOBAL CLIMATE EQUITY STRATEGIES

### Investment commentary

#### KEY TAKEAWAYS

Market drivers: The main reason for the improvement in Investor confidence was signaling from the Fed that the pace of rate hikes expected to slow down soon.

Sector impact on strategies: structural positioning, namely the overweighting in Industrials and Materials followed by the underweighting in Energy and Healthcare were key positives.

Thematic drivers: Energy prices have come down recently as a result of an increasingly likelihood of recession in Europe and talk of a price cap on Russian oil. This has given a boost to climate change themes this month, namely in Renewables, Industry Efficiency and Natural Capital and Ecosystems.

#### December MARKET COMMENTARY – GLOBAL EQUITIES

Market: MSCI World returned -18.17% during 2022 ending a year that was punctuated by inflation and the ensuing interest rate hikes, Conflict in eastern Europe, China's zero COVID policy and the looming risk of a global recession.

US stocks declined on the back of interest rate hikes which saw the Fed Funds rate increase from 0.25% at the start of the year, through to 4.5% in December with further hikes expected in 2023. However, the macroeconomic environment remained robust with the most recent quarterly GDP growth coming in at 3.2% and unemployment remaining low.

European stocks retreated as implications of the conflict in eastern Europe weighed in on equity prices. Growing uncertainty around the gas supply to Europe raised concerns of a more persistent inflation outlook. The UK outperformed, despite political troubles, as large UK listed commodity producers saw strong earnings, contrasting well with its low exposure to expensive technology companies.

Emerging markets struggled and spent the majority of the year impeded by China's zero COVID policy. A strengthening dollar was a headwind for the emerging markets throughout the year, however, as US inflation is now largely under control the effects are less profound.

Currencies: The euro appreciated by close to 3% from \$1.04 to \$1.07.

Commodities: Brent remained stable at \$85 while natural gas declined by 35%. The S & P GSCI Commodities Index composite declined by 1.8% in dollars.

Global sectors: Utilities, Healthcare and Consumer Staples were the top performers while IT, Consumer Discretionary and Consumer Services lagged.

Styles: Value outperformed Growth (-3.4% versus -5.6%).

#### OUTLOOK FOR CLIMATE CHANGE THEME

Companies offering climate change solutions have a structural growth profile in the long term. In the short term, the overhangs is inflation and energy price volatility.

The US government's Inflation Reduction Act, passed in August is particularly exciting given the sizable and long-term support package across a broad range of technologies from solar and wind to hydrogen and carbon capture & storage. Europe is seeking to accelerate its transition to renewable energy given the region's current energy crisis.

#### 1. HGIF GLOBAL EQUITY CLIMATE CHANGE

Sector allocation close to neutral while Stock selection was negative. Stock selection suffered most in Information Technology, Consumer Staples, Industrials, Communication Services and Materials.

Neutral sector allocation: structural positioning, namely the overweighting in Industrials, Materials and Utilities was positive but the underweighting in Healthcare and Financials was negative.

(b) TOP AND BOTTOM CONTRIBUTORS

|                         | Average Weighting (%) | Contribution | Performance | Sub-theme                                  |
|-------------------------|-----------------------|--------------|-------------|--|
| <b>Top contributors</b> |                       |              |             |  |
| 1. Prysmian             | 4.39                  | 0.3          | 7%          | Renewable Energy                           |
| 2. Vestas               | 2.04                  | 0.3          | 17%         | Renewable Energy                           |
| 3. Orsted               | 2.61                  | 0.13         | 5%          | Renewable Energy                           |
| <b>Top detractors</b>   |                       |              |             |  |
| 1. Enphase Energy       | 2.72                  | -0.49        | -17%        | Renewable Energy                           |
| 2. Accenture            | 3.58                  | -0.42        | -11%        | Information and Communication Technologies |
| 3. First Solar          | 2.65                  | -0.38        | -13%        | Renewable Energy                           |

Top contributors

Vestas , a Denmark-based wind turbine manufacturer, traded higher driven by positive newsflow on turbine orders and progress in renewables permitting reform in the EU.

Prysmian, an Italy-based cable manufacturer, and Orsted, a Denmark-based offshore wind developer and operator, also rose on improving investor sentiment in the wind sector.

Top detractors

Enphase Energy, a US-based solar inverter manufacturer, and First Solar, a US-based solar module manufacturer, fell as valuation levels declined against rising US government bond yields.

Accenture, a US-based consulting company, dropped after its quarterly earnings results showed consulting sales growth moderating, adding to investor cautiousness amid weakening economic backdrop.

Trades

No notable trades made during the month

(d) APPROACH AND POSITIONING

The fund's returns may significantly deviate from a global equity reference index, such as the MSCI ACWI, in the short term. Its climate change investment universe is structurally overweight Industrials, IT, Materials and Utilities, whilst being underweight in Energy and defensive sectors such as Healthcare and Consumer Goods. The strategy has little to no direct fossil fuel exposure given the portfolio's objective to have a carbon intensity that is 50% lower than the MSCI ACWI.

|  | Average Weighting (%) | Contribution | Performance |
|--|-----------------------|--------------|-------------|
| Clean Transportation                       | 0,00                  | 0,00         |             |
| Circular Economy and Resource Efficiency   | 8,22                  | -0,11        | -1%         |
| Diversification                            | 3,38                  | -0,12        | -4%         |
| Natural Capital & Ecosystems               | 6,07                  | -0,27        | -4%         |
| Climate Change Adaptation                  | 5,22                  | -0,28        | -5%         |
| Information and Communication Technologies | 9,70                  | -0,76        | -8%         |
| Renewable Energy                           | 28,07                 | -0,80        | -3%         |
| Green Buildings                            | 17,50                 | -0,88        | -5%         |
| Industry Efficiency                        | 21,78                 | -0,99        | -5%         |

# HGIF Global Equity Climate Change - HGECC – Underlying Fund

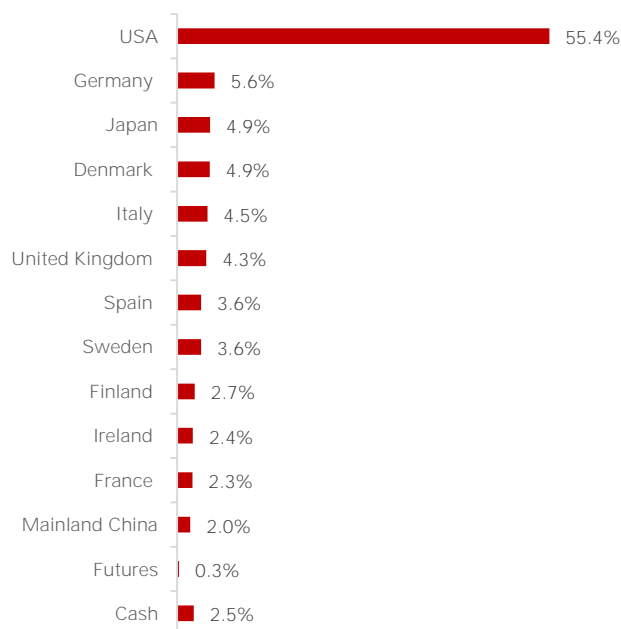
## Portfolio

| Instrument                   | Weight (%) |
|------------------------------|------------|
| DEERE & CO                   | 5.1%       |
| TRANE TECHNOLOGIES PLC       | 4.7%       |
| PRYSMIAN SPA                 | 4.5%       |
| SCHNEIDER ELECTRIC SE        | 4.1%       |
| EDP RENOVAVEIS SA            | 3.6%       |
| ECOLAB INC                   | 3.6%       |
| NIBE INDUSTRIER AB-B SHS     | 3.6%       |
| MICROSOFT CORP               | 3.5%       |
| ACCENTURE PLC-CL A           | 3.5%       |
| INFINEON TECHNOLOGIES AG     | 3.4%       |
| VERISK ANALYTICS INC         | 3.3%       |
| AUTODESK INC                 | 3.2%       |
| WATTS WATER TECHNOLOGIES-A   | 2.9%       |
| ORSTED A/S                   | 2.7%       |
| NESTE OYJ                    | 2.7%       |
| CRODA INTERNATIONAL PLC      | 2.7%       |
| FIRST SOLAR INC              | 2.6%       |
| PROLOGIS INC                 | 2.5%       |
| ENPHASE ENERGY INC           | 2.4%       |
| SENSATA TECHNOLOGIES HOLDING | 2.4%       |
| CAPGEMINI SE                 | 2.3%       |
| DANAHER CORP                 | 2.3%       |
| BRENNTAG SE                  | 2.2%       |
| AGILENT TECHNOLOGIES INC     | 2.2%       |
| VESTAS WIND SYSTEMS A/S      | 2.2%       |
| BALL CORP                    | 2.0%       |
| HUBBELL INC                  | 1.9%       |
| AZBIL CORP                   | 1.8%       |
| SHIMADZU CORP                | 1.7%       |
| SSE PLC                      | 1.7%       |
| OMRON CORP                   | 1.4%       |
| WASTE MANAGEMENT INC         | 1.3%       |
| SMURFIT KAPPA GROUP PLC      | 1.3%       |
| KINGSPAN GROUP PLC           | 1.1%       |
| SOLAREEDGE TECHNOLOGIES INC  | 1.1%       |
| KONINKLIJKE DSM NV           | 1.0%       |
| CIMC ENRIC HOLDINGS LTD      | 1.0%       |
| TRIMBLE INC                  | 0.9%       |
| SUNGROW POWER SUPPLY CO LT-A | 0.5%       |
| NARI TECHNOLOGY CO LTD-A     | 0.4%       |
| Futures                      | 0.3%       |
| Cash                         | 0.25%      |
| Total                        | 100.00%    |

## Sector Allocation (%)

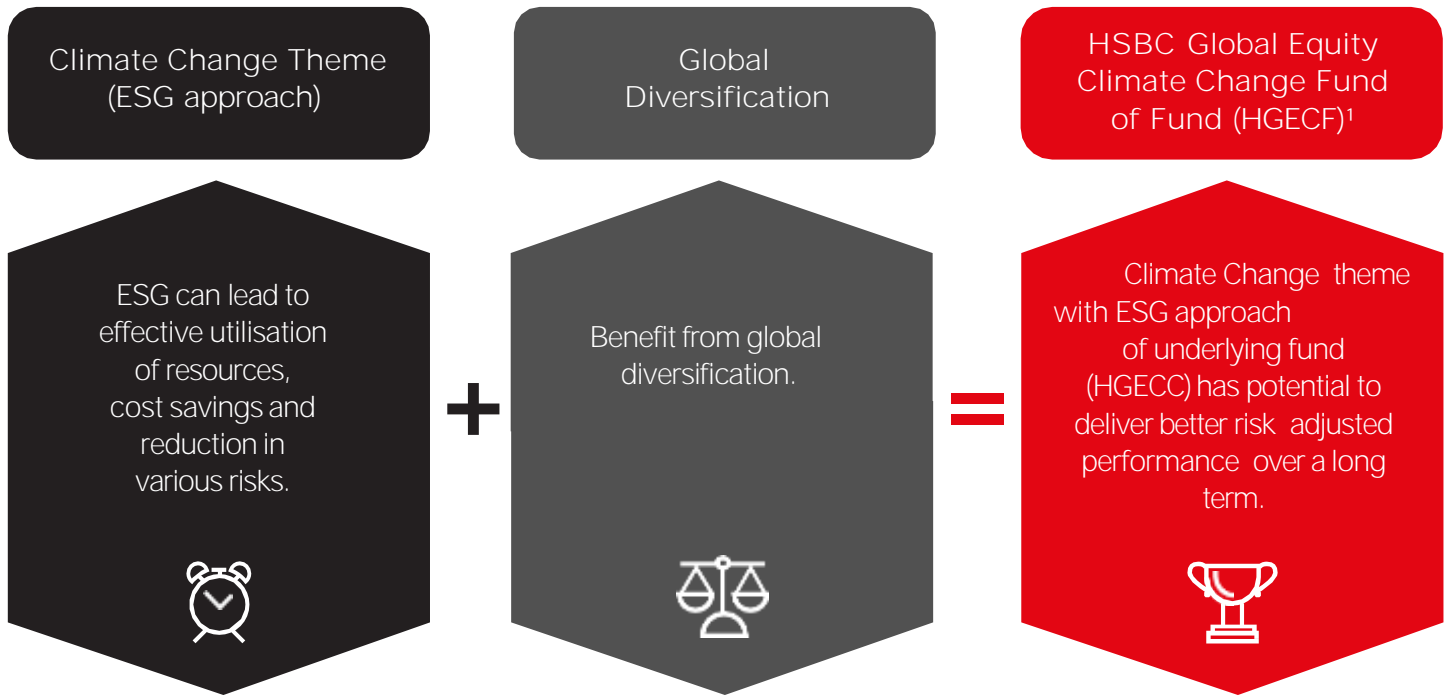
| Name                   | Weight |
|------------------------|--------|
| Industrials            | 41.3%  |
| Information Technology | 27.8%  |
| Materials              | 10.5%  |
| Utilities              | 7.9%   |
| Health Care            | 4.4%   |
| Energy                 | 2.7%   |
| Real Estate            | 2.5%   |
| Futures                | 0.3%   |
| Cash                   | 2.5%   |

## Country allocation



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

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

<sup>1</sup> An open ended fund of fund scheme investing in HSBC Global Investment Funds – Global Equity Climate Change

<sup>2</sup> 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 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

**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

**Benchmark**

MSCI AC World TRI.<sup>3</sup>

**Fund Managers**

Sonal Gupta

<sup>3</sup>The Fund reserves the right to change the benchmark for evaluation of the performance of the Scheme from time to time, subject to SEBI (Mutual Funds) 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

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

| Fund Category   | Fund Manager | Benchmark <sup>1</sup> | Inception Date | AUM           |
|---|--------------|------------------------|----------------|---------------|
| Fund of Funds (Overseas)  | Sonal Gupta  | MSCI AC World TRI      | 22 Mar 2021    | Rs. 396.31 Cr |
| Load / Expenses   |              |                        |                |               |
| Entry Load  |              |                        |                | NA            |
| Exit Load - (i) In respect of each purchase / switch-in of units, an Exit Load of 1% is payable if Units are redeemed / switched-out within 1 year from the date of allotment. (ii) No Exit Load will be charged, if units are redeemed / switched-out after 1 year from the date of allotment. The exit loads set forth above is subject to change at the discretion of the AMC and such changes shall be implemented prospectively. |              |                        |                |               |
| Expense ratio (Other than Direct) <sup>2</sup>  |              |                        |                | 2.12%         |
| Expense ratio (Direct)  |              |                        |                | 1.33%         |

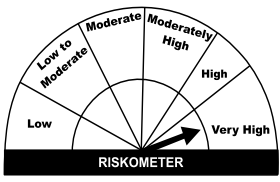
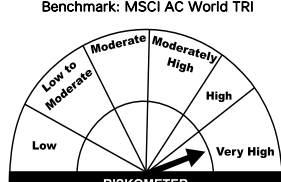
## Portfolio

| Issuer   | Industries           | % to Net Assets |
|--|----------------------|-----------------|
| <b>Mutual Fund Units</b>                       |                      | <b>98.71%</b>   |
| HSBC GIF GL EQ CLM CHG JCUSD                   | Overseas Mutual Fund | 98.71%          |
| <b>Cash Equivalent</b>                         |                      | <b>1.29%</b>    |
| <b>TREPS*</b>                                  |                      | <b>2.61%</b>    |
| <b>Net Current Assets:</b>                     |                      | <b>-1.32%</b>   |
| <b>Total Net Assets as on 31-December-2022</b> |                      | <b>100.00%</b>  |

## Asset Allocation

|  |                |
|--|----------------|
| Overseas Mutual Fund                           | 98.71%         |
| Reverse Repos/TREPS                            | 2.61%          |
| Net Current Asset                              | -1.32%         |
| <b>Total Net Assets as on 31-December-2022</b> | <b>100.00%</b> |

\*TREPS : Tri-Party Repo, Data as on 31 December 2022

| HSBC Global Equity Climate Change Fund of Fund  |  |  |
|---|--|--|
|  <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*:</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><b>Benchmark: MSCI AC World TRI</b></p>  |

\* Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

<sup>1</sup> SEBI vide its circular no. SEBI/HO/IMD/IMD-II DF3/P/CIR/2021/652 dated October 27, 2021, on 'Guiding Principles for bringing uniformity in Benchmarks of Mutual Fund Schemes' has introduced two-tiered structure for benchmarking of certain categories of schemes. Accordingly, the benchmark has been classified as Tier 1 benchmark. Furthermore, the same is effective from 01 December 2021

<sup>2</sup>Continuing plans

**Note on Risk-o-meters:** Riskometer is as on 31 Dec 2022, 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

Past performance is not an indicator of future returns. Source: HSBC Asset Management India, data as at 31 Dec 2022

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Mutual fund investments are subject to market risks, read all scheme related documents carefully.