

## Product Note

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

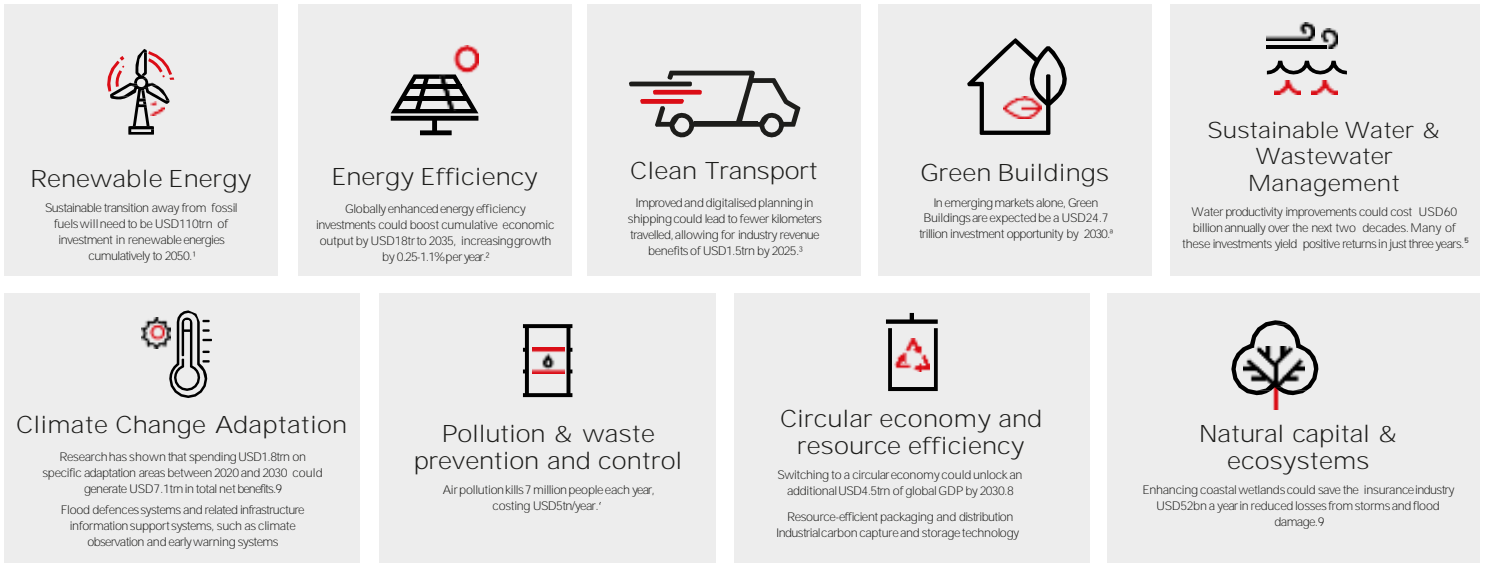
(An open ended fund of fund scheme investing in HSBC Global Investment Funds – Global Equity Climate Change)

June 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



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

## HGIF Global Equity Climate Change – Portfolio strategy

### Key Takeaways

- ❑ Relative returns were slightly negative for the Circular Economy fund but more so for Global Climate Change. This is mainly due to positioning in Industrials (OW) and IT (OW) where we were exposed to the more cyclical names. In several cases, the market sold off cyclicals even in the face of consensus beating earnings because of the peak earnings debate. Moreover, the fund did not benefit from the bounce back in Financials since it is absent from the sector.
- ❑ De-globalisation – COVID-19 and geopolitics have made governments and corporates realise the importance of building more resilient supply chains. Reshoring of supply chains across sectors, from renewables to semiconductors, creates new demand for manufacturing hubs and automation technology.
- ❑ Valuations – valuation multiples have reset creating more attractive prospective returns for equities (HGIF GECC de-rated by 21%).
- ❑ New fund joins Circular Economy universe: CPR launched a Circular Economy fund, enlarging the peer group to eight players globally.

Data as on 31 May 2023,

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

Document date :20 June 2023

- ❑ **Market:** MSCI ACWI Net returned +1.4% over the month of April: US (+1.2%), EM (-1.1%) and Europe (+4.0%).
- ❑ **Currencies:** USD depreciated against the Euro (from \$1.08 to \$1.10).
- ❑ **Commodities:** Brent remained end the month at the same level of \$79, The S & P Commodities Index composite dropped another 10%.
- ❑ **Global sectors:** Eight out of eleven industry groups posted positive returns: Consumer Discretionary, IT and Materials were slightly negative.
- ❑ **Styles:** Value slightly outperformed Growth (+1.8% versus (+1.1%)

### Outlook For Climate Theme

- ❑ Against a backdrop of scarce growth opportunities in a slowing global economy, companies with structural growth drivers, such as those offering climate change solutions, present an attractive investment option
- ❑ Positive medium-term outlook for solar and wind growth due to its growing cost competitiveness compared to fossil fuels and the materialisation of government incentives
- ❑ Expect further policy support in Europe on clean energy this year, particularly around easing processes for renewable development and promoting local manufacturing and sourcing
- ❑ Construction and manufacturing end markets are seeing incremental slowdown in demand as rising interest rates begin to bite, however, secular drivers arising from the growing urgency to solve climate change continue to support long-term sustainable growth in these end markets
- ❑ Electric vehicle penetration has accelerated globally over the last 2 years and we expect this positive trajectory to be well supported going forward by government incentives e.g. US IRA, and the steady decline in battery costs – we think selectivity in the EV value chain is key given the varying competitive dynamics of each stage of supply chain

## PERFORMANCE SYNOPSIS:

- ❑ Sector allocation / stock selection: Sector positioning was the major negative this month, mainly due to the 43% weighting in Industrials.
- ❑ Winning and losing themes: There was a lot of volatility during the earnings seasons, especially around industrial names which are highly sensitive to economic expectations. Many of these industrials and semi-conductor stock reported Q1 earnings well ahead of the consensus but floundered because the market is rightly or wrongly sensing that the peak in the cycle is near. For example, 83% of holdings that reported beat the consensus against 50% for the index. That would have normally translated into outperformance; however, the forward guidance given by industrials was generally more cautious than in the past and this is what investors have been focusing on. Peak earnings are a real concern given that this has been the strongest season since 2007. In May, some of these oversold companies bounced back ie) semi-conductors, along with companies that were sold just prior to the earnings release but surged after their release in May.

## TOP AND BOTTOM CONTRIBUTORS

### Top contributors

- ❑ Microsoft, a US-based technology company, rose as it delivered better than expected in the latest quarter earnings growth and guidance of mid-teens EPS growth in the next quarter also beating market expectations
- ❑ Croda, a UK-based specialty chemicals manufacturer, climbed after one of Croda's biggest consumer care customers highlighted resilience in global consumer beauty markets in an earnings call and normalisation of inventory levels.
- ❑ Hubbell, a US-based electrical equipment provider, advanced after reporting strong organic sales growth driven by grid capex spend in the US and raised its 2023 earnings growth outlook.

### Top detractors

- ❑ First Solar, a US-based solar module manufacturer, dropped after reporting Q1 2023 earnings below consensus driven solar module shipments being delayed into the future and a slowdown in bookings, albeit still at elevated levels.
- ❑ Infineon, a Germany-based semiconductor manufacturer, was a weak performer as the markets grew concerned that the semiconductor companies are reaching peak earnings amid near-term weakening in the automotive sector.
- ❑ Sensata, a US-based automotive sensor manufacturer, fell after reporting weak Q2 growth guidance despite beating consensus on Q1 2023 sales and EPS growth.

## 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 is structurally underweight fossil fuel energy. Exposure to the Energy sector is accessed via bio based, renewable fuels or equipment for the Energy transition.

Source - HSBC Asset Management, HGIF Global Equity Climate Change underlying fund commentary, Bloomberg, Data as on 31 May 2023

The above information are for illustrative purpose only and it should not be considered as investment research, investment recommendation or advice to any reader of this content to buy or sell investments. The Fund may or may not have any future position in these stocks.

At sector level, stock selection was negative for the month. Positive performance came from Real Estate and Materials, though this was offset by negative stock selection in Information Technology and Energy.

At country level, stock selection was negative for the month. Positive performance came from Germany and Japan, though this was offset by negative stock selection in Finland and Sweden.

USA Industrials security, VERISK ANALYTICS INC with total effect 0.48% is the top contributor. Additionally, USA Information Technology security, FIRST SOLAR INC was the second largest contributor with total effect 0.37%. USA Information Technology security, ACCENTURE PLC-CL A also contributed with total effect 0.34%.

On the other side, detractors included Finnish Energy security NESTE OYJ with total effect -0.57%, Swedish Industrials holding, NIBE INDUSTRIER AB-B SHS with total effect -0.51%, and USA Industrials holding, TRANE TECHNOLOGIES PLC with total effect -0.50%.

During this period, positions were initiated in EDP RENOVAVEIS SA - INTERIM.  
No positions were closed.

Sector and Country allocation effects are residual to stock selection. At a country level, effects were negative, given an underweight exposure to Sweden. At sector level, effects were positive, given an overweight exposure to Information Technology.

# HGIF Global Equity Climate Change - HGECC – Underlying Fund

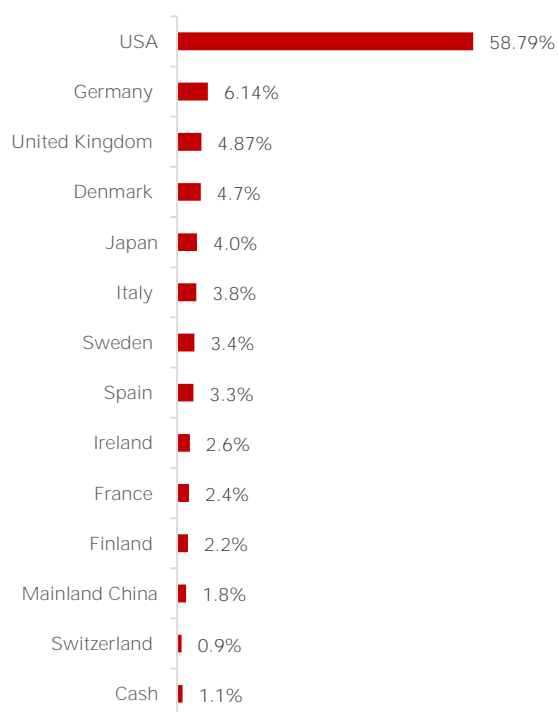
## Portfolio

Instrument	Weight (%)
MICROSOFT CORP	4.8%
SCHNEIDER ELECTRIC SE	4.5%
TRANE TECHNOLOGIES PLC	4.2%
VERISK ANALYTICS INC	4.1%
ECOLAB INC	4.0%
ACCENTURE PLC-CL A	4.0%
INFINEON TECHNOLOGIES AG	3.9%
PRYSMIAN SPA	3.8%
DEERE & CO	3.7%
FIRST SOLAR INC	3.5%
NIBE INDUSTRIER AB-B SHS	3.4%
AUTODESK INC	3.4%
EDP RENOVAVEIS SA	3.2%
WATTS WATER TECHNOLOGIES-A	3.1%
HUBBELL INC	2.8%
PROLOGIS INC	2.7%
ORSTED A/S	2.6%
CRODA INTERNATIONAL PLC	2.5%
SENSATA TECHNOLOGIES HOLDING	2.5%
CAPGEMINI SE	2.4%
SSE PLC	2.4%
BRENTAG SE	2.2%
AZBIL CORP	2.2%
NESTE OYJ	2.2%
VESTAS WIND SYSTEMS A/S	2.1%
BALL CORP	2.0%
DANAHER CORP	1.9%
OMRON CORP	1.8%
AGILENT TECHNOLOGIES INC	1.7%
ENPHASE ENERGY INC	1.4%
WASTE MANAGEMENT INC	1.3%
KINGSPAN GROUP PLC	1.3%
ADVANCED DRAINAGE SYSTEMS IN	1.3%
SMURFIT KAPPA GROUP PLC	1.2%
SOLAREEDGE TECHNOLOGIES INC	1.1%
DSM-FIRMENICH AG	0.9%
CIMC ENRIC HOLDINGS LTD	0.8%
TRIMBLE INC	0.8%
SUNGROW POWER SUPPLY CO LT-A	0.5%
NARI TECHNOLOGY CO LTD-A	0.5%
Cash	1.1%
Total	100.00%

## Sector Allocation (%)

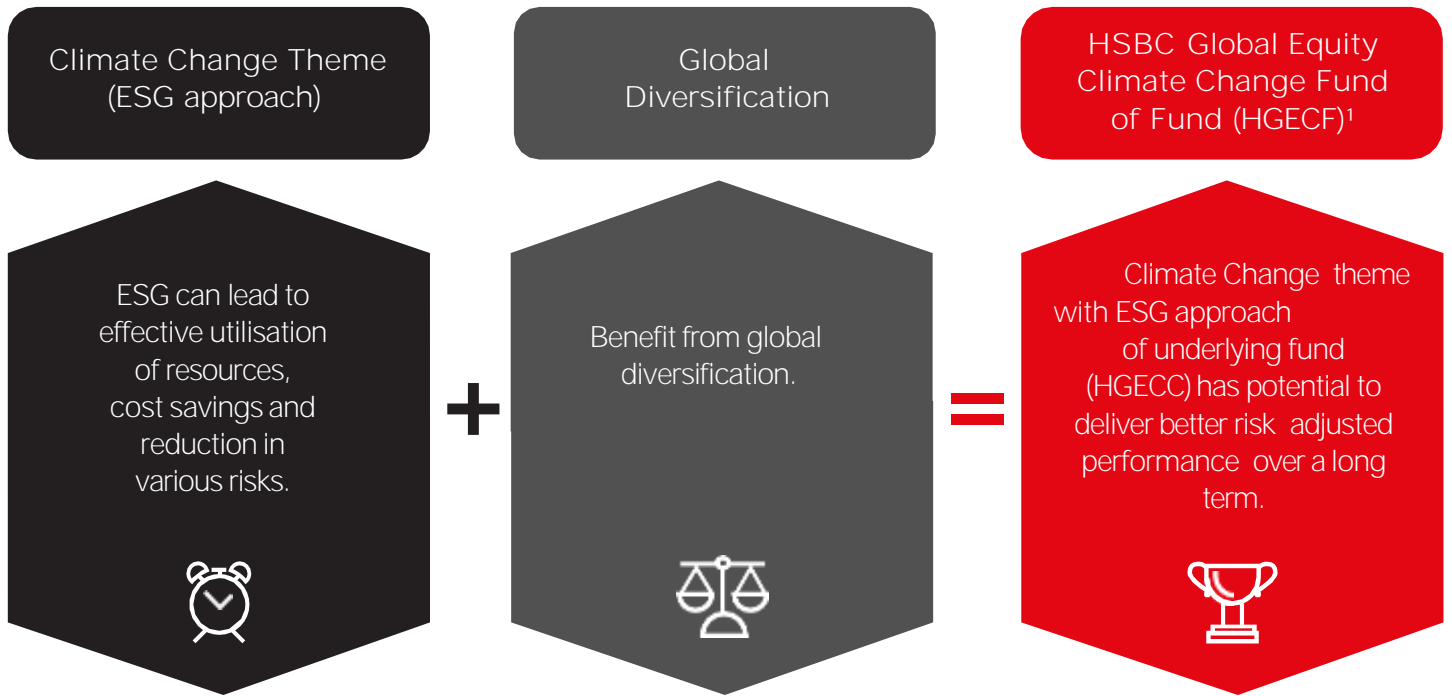
Name	Weight
Industrials	42.2%
Information Technology	29.3%
Materials	9.7%
Utilities	8.2%
Health Care	3.6%
Real Estate	2.7%
Energy	2.2%
Cash	1.1%

## 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. 276.19 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%

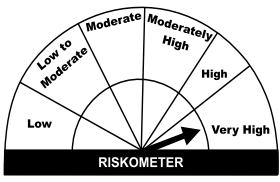
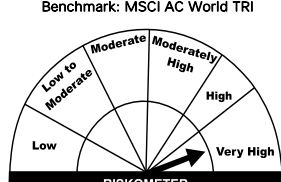
## Portfolio

Issuer	Industries	% to Net Assets
Mutual Fund Units		97.48%
HSBC GIF GL EQ CLM CHG JCUSD	Overseas Mutual Fund	97.48%
Cash Equivalent		2.52%
TREPS*		3.48%
Net Current Assets:		-0.96%
Total Net Assets as on 31-May-2023		100.00%

## Asset Allocation

Overseas Mutual Fund	97.48%
Reverse Repos/TREPS	3.48%
Net Current Asset	-0.96%
Total Net Assets as on 31-May-2023	100.00%

\*TREPS : Tri-Party Repo, Data as on 31 May 2023

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:** 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. 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 May 2023

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

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