

## Asset Management

# HGIF Global Equity Circular Economy

31 January 2023

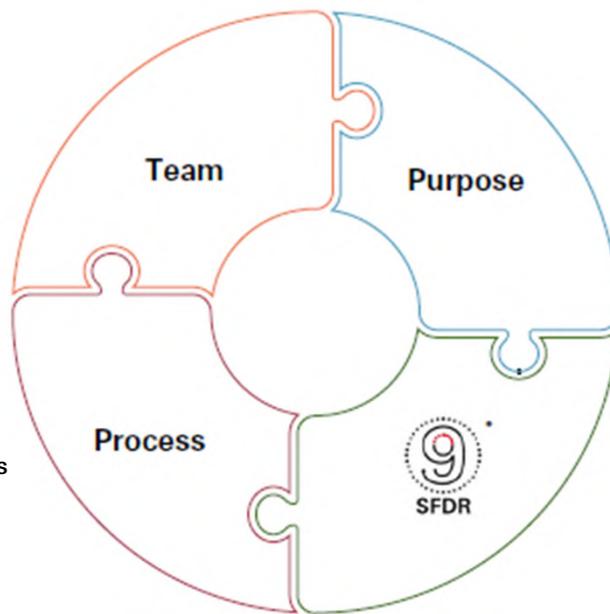
A proprietary investment approach targeting circular economy players for a more sustainable world



### Fund's key features

- Dedicated climate change team of two portfolio managers and three analysts, leveraging research across HSBC's investment and ESG research teams.

- Holistic ESG driven process
- Proprietary HSBC taxonomy
- High conviction portfolio



- The current linear model is unsustainable
- Circular Economy helps preserve natural resources and eco-systems while generating economic prosperity

- SFDR Article 9\*
- Thematic and ESG best-in class approach, disclosures and reporting.

The HSBC GIF Global Equity Circular Economy fund is an actively managed fund and does not have a reference benchmark

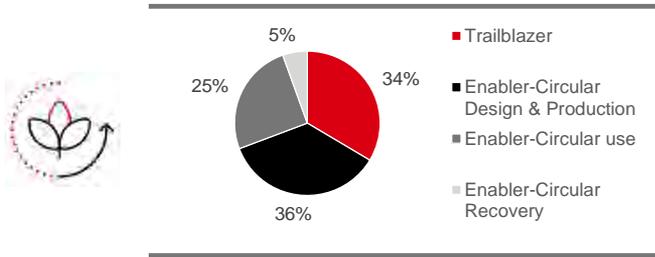
### Investment Objective:

The Fund aims to make a positive environmental, social and governance (ESG) impact by investing in a concentrated portfolio of companies that actively contribute to the transition to a more circular global economy. The Fund also aims to achieve a higher ESG rating than the weighted average of the constituents of its reference benchmark, after eliminating at least 20% of the lowest ESG rated issuers. The Fund qualifies under Article 9 of SFDR.

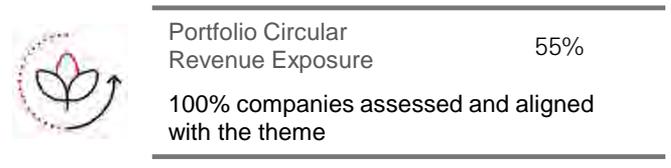
\*Article 9 SFDR: the product has a sustainability objective. The decision to invest in the promoted fund should take into account all the characteristics or objectives of the promoted fund as described in its prospectus. More information on our 'Responsible Investment' Policy and 'Implementation Procedures' can be found on our website.

# Thematic and ESG Reporting

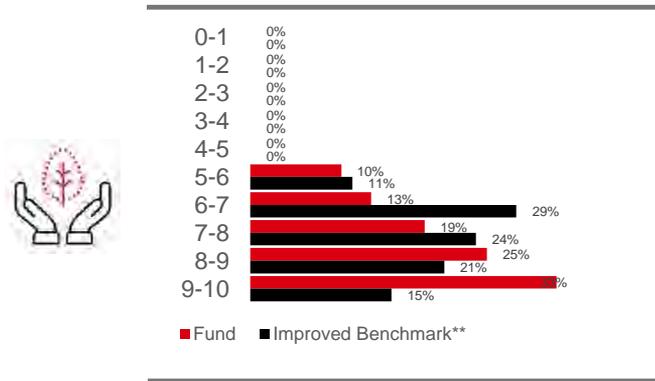
## Circular Economy Thematic Classification (\*\*\*) (HSBC)



## Thematic Purity (HSBC)



## Overall ESG score distribution (MSCI industry adjusted score)



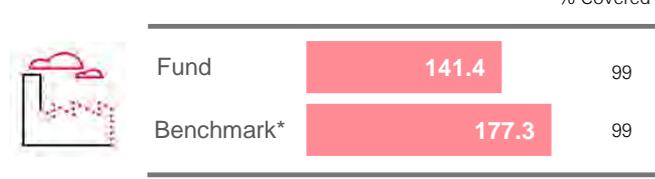
## Overall ESG score (MSCI industry adjusted score)



## ESG pillar scores (MSCI)



## Carbon intensity (Scope 1+2 CO<sub>2</sub>e/USDmn, S&P Trucost)



## Carbon emissions avoided (Tonnes of CO<sub>2</sub> saved per mn invested. C4finance)



## Exposure to Fossil Fuels, Coal, Power Generation and Renewables (S&P Trucost)

	Fossil Fuel Companies	Coal Companies	Fossil Fuel Power Generation Companies	Renewables Companies
Fund	0.0%	0.0%	0.0%	3.6%
Benchmark*	4.5%	0.2%	0.9%	0.2%

## United Nations Global Compact Principal alignment (Sustainalytics)



Please refer to the Glossary for all terminology explanations

All calculations exclude cash holdings except for the data on United Nations Global Compact Principal alignment

\*Benchmark = MSCI AC World NR; \*\* Improved Benchmark = removal of lowest (last quintile) rated MSCI ESG holdings

\*\*\* Proprietary HSBC Circular Economy Classification & Methodology

Source: HSBC Asset Management. Data as at 31 January 2023. Characteristics and weightings are for information only, are not guaranteed and are subject to change over time, and without prior notice, taking into account any changes in markets.

## Monthly fund review

The fund outperformed its MSCI ACWI benchmark. Stock selection added most. A deceleration of inflation and hints of a peaking of a Fed rate hike cycle was favorable for long duration (growth) stocks to which the fund is exposed.

Sector allocation / stock selection: The absence of Healthcare was a key positive followed the absence of Energy and the over weighting in Materials. The fund 's stock positioning in capital goods was particularly strong. Winning and losing themes: The biggest contributor was Circular use followed by Trailblazers.

### TOP CONTRIBUTORS

SHOPIFY INC (USA): This digital-commerce platform allowing merchants to sell their products and services rebounded on announcing price increases that would more than offset any economic weakness. UNITED RENTALS (USA): This equipment rental company rose on robust demand trends despite macro concerns. Surveys in the US showed that rental rates will increase 5% year on year of the next 12 months. ASML HOLDING (Netherlands): this maker of lithography systems for chip manufacturing rose on solid 4Q22 results ahead of consensus on all counts.

### BOTTOM CONTRIBUTORS:

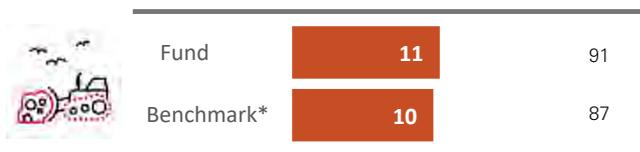
ENPHASE ENERGY (US): a US-based solar inverter manufacturer, fell as the uncertain backdrop for US residential solar activity for 2023 weighed on investor sentiment. GARTNER (US): this consulting company had a flat return over the month on limited news flows. ORSTED (Denmark): in spite of favorable energy policies in the US and Europe, this developer of offshore windfarms has suffered in the short term from cost inflation and project-execution delays.

### TRANSACTIONS

We sold our positions in GRAPHIC PACKAGING and INTERTEK GROUP on a lower demand outlook due to the cyclical nature of their end business. We sold our position in GARTNER because we are seeking purer players with higher circular economy revenues.

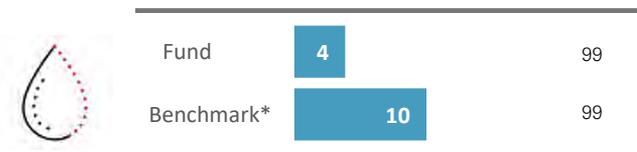
## Waste intensity (landfill and incineration)

(S&P Trucost, Tonnes/USDmn revenue) % Covered



## Water intensity (direct and purchased)

(S&P Trucost, K Cubic Metres/USDmn revenue) % Covered



## ESG Risk

(Sustainalytics)

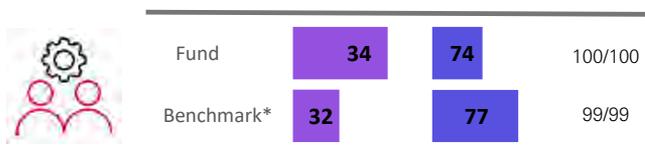
Corporate Risk Government Country Risk % Covered



## Social & Governance

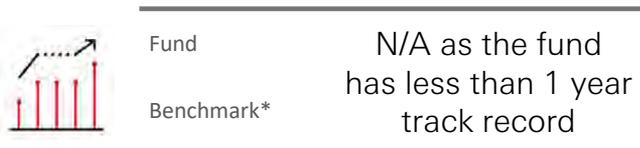
(Bloomberg)

% Women on the board % Board Independence % Covered



## Performance

(AC Share Class, USD) Since Inception 1 Month 3 Months



Fund is denominated in USD. Costs and returns may vary with fluctuations in the exchange rate.

Past performance does not predict future returns.

The figures are calculated in the share class base currency, dividend reinvested, net of fees.

\*Benchmark = MSCI AC World

Please see Glossary section for an explanation of metrics and terminology

Source: HSBC Asset Management. Data as at 31 January 2023. Characteristics and weightings are for information only, are not guaranteed and are subject to change over time, and without prior notice, taking into account any changes in markets.

## Top 10 fund holdings by weight

Holding	%	Circular Economy Category	CE Revenue Percentage	ESG Score	Country	Sector
ASML HOLDING NV	3.4	Enabler-Circular use	20-50%	10.0	Netherlands	Information Technology
AUTODESK INC	3.3	Enabler-Circular Design & Production	Above 50%	10.0	United States of America	Information Technology
HOME DEPOT INC	3.2	Trailblazer	Under 20%	8.5	United States of America	Consumer Discretionary
L'OREAL	3.1	Trailblazer	Above 50%	9.1	France	Consumer Staples
UNITED RENTALS INC	3.1	Enabler-Circular use	Above 50%	7.9	United States of America	Industrials
CISCO SYSTEMS INC	3.0	Trailblazer	Above 50%	7.4	United States of America	Information Technology
ECOLAB INC	2.9	Enabler-Circular Design & Production	Above 50%	10.0	United States of America	Materials
ETSY INC	2.7	Enabler-Circular use	Above 50%	5.4	United States of America	Consumer Discretionary
AJINOMOTO CO INC	2.7	Trailblazer	20-50%	10.0	Japan	Consumer Staples
ADVANCED DRAINAGE SYSTEMS IN	2.6	Enabler-Circular Design & Production	Above 50%	7.6	United States of America	Industrials
<b>Total</b>	30.0					

\*The primary indicator for Trailblazers is a qualitative assessment of circular economy adoption: circular revenue plays a secondary role in our analysis

## Top 10 fund holdings commentary

Companies	Circular Economy impacts
<b>ASML HOLDING NV</b>	Circular Economy integration of operations: well prepared for scarcity of resources
<b>AUTODESK</b>	Leader in 3D technology, eco design, modelling
<b>HOME DEPOT</b>	Collaborates with suppliers to adopt circular practices
<b>L'OREAL</b>	Pressuring supply chain to tackle plastic waste
<b>UNITED RENTALS INC</b>	Sharing model – increasing product utilization to reduce production: world’s largest B to B equipment rental company
<b>CISCO SYSTEMS INC</b>	Pledged 100% return of Capital Equipment, No landfill waste and 85% recycle rate
<b>ECOLAB</b>	Diverse industrial circular solutions for water, waste and food
<b>ETSY INC</b>	Reuse model through sales of second hand items through on-line platform
<b>AJINOMOTO CO INC</b>	Food and Health Issues solution-provider, striving to reduce environmental impacts and regenerate the environment, focusing on waste management and circular solutions
<b>ADVANCED DRAINAGE SYSTEMS INC</b>	Leading provider of innovative water management solutions and the second largest plastic recycling company in North America

**The information provided does not constitute a recommendation to buy or sell investments.**

Source: HSBC Asset Management. Data as at 31 January 2023. Characteristics and weightings are for information only, are not guaranteed and are subject to change over time, and without prior notice, taking into account any changes in markets.

# Glossary of metrics and terminology

## Proprietary HSBC Circular Economy Classification & Methodology:

Enablers: Companies providing products and services to facilitate the transition

Circular revenue methodology: minimum 20% of revenues

Trailblazers: Large well-known companies demonstrably embracing circularity across their value chain

Quantitative scoring methodology to assess company circularity. Based on Ellen McArthur's Circulytics questionnaire: minimum score of 30

## Thematic Purity

Percentage of circular economy revenues generated by portfolio holdings (excluding cash)

## Circular revenue percentage:

Percentage of circular revenues from each holding in the portfolio

## CO2e:

Carbon Dioxide Equivalent. A term for describing different greenhouse gases in a common unit. For any quantity and type of greenhouse gas, CO2e signifies the amount of CO2 which would have the equivalent global warming impact CO2e is a very useful term because it allows:

- A bundle of greenhouse gases to be expressed as a single number
- Difference bundles of greenhouse gases to be easily compared

## Corporate Carbon Intensity (tonnes CO2e/USD mn) :

Tonnes of Scope 2 CO2e/USD mn revenue for selected company against peer companies and peer group.

$$\sum_n^i \left( \frac{\text{current value of investment}_i}{\text{current portfolio value}} \times \frac{\text{issuer's Scope 1 and Scope 2 GHG emissions}_i}{\text{issuer's \$M revenue}_i} \right)$$

## Coverage:

This indicates the proportion of the fund/benchmark for which data can be sourced.

## ESG:

Industry abbreviation for Environment, Social and Governance.

Each of the E, S and G "Pillars" are further broken down into "Themes" and "Key Issues".

## Exposure to Fossil Fuels, Coal, Power Generation and Renewables:

Exposure breakdown based on S&P Trucost Sectors and aggregated as per the below table:

Fossil Fuel Companies	Bituminous Coal and Lignite Surface Mining
	Bituminous Coal Underground Mining
	Crude Petroleum and Natural Gas Extraction
	Drilling Oil and Gas Wells
	Natural Gas Liquid Extraction
	Support Activities for Oil and Gas Operations
	Tar Sands Extraction
Coal Companies	Bituminous Coal and Lignite Surface Mining
	Bituminous Coal Underground Mining
	Coal Power Generation
Fossil Fuel Power Generation Companies	Coal Power Generation
	Natural Gas Power Generation
	Petroleum Power Generation
Renewables Companies	Geothermal Power Generation
	Hydroelectric Power Generation
	Solar Power Generation
	Wave & Tidal Power Generation
	Wind Power Generation

## Glossary of metrics and terminology

### Carbon emissions avoided:

Emissions savings which comprise reduced emissions based on process efficiency improvement over several years, and avoided emissions resulting from the company's activities or products.

### Carbon Impact Ratio:

The carbon impact ratio is the ratio of avoided emissions to induced emissions. It is an easy-to-read indicator of the carbon impact of a company, and enables comparison between the carbon impact of a company and the impacts of its sectorial peers.

### Sustainalytics Corporate Risk ESG Score:

It applies the concept of risk decomposition to derive the level of unmanaged risk for a company, which is assigned to one of five risk categories. The score ranges from 0 and 100, with 0 indicating that risks have been fully managed (no unmanaged ESG risks) and 100 indicating the highest level of unmanaged risk. It is calculated as the difference between a company's overall exposure score and its overall managed risk score, or alternatively by adding the Corporate Governance unmanaged risk score to the sum of the company's issue unmanaged risk scores.

### Sustainalytics Government Country Risk ESG Score:

Aggregated Country Risk is combined by a Wealth Score and ESG Risk Factor Score.

Both Scores split up into three sub-components:

- Natural and Produced Capital
- Human Capital
- Institutional Capital

Wealth Score =  $(\text{Total Wealth } i) / (\text{Max Wealth of All Countries}) \times 100$  (Normalized 0-100)

ESG Risk Factor Score combines the ESG Performance Score, Trend Score and Events Score to calculate the Overall ESG Factors Score. (Normalized 0-100)

### United Nations Global Compact (UNGC) Principles:

The Ten Principles of the United Nations Global Compact are derived from: the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption.

Human Rights	Principle 1	Businesses should support and respect the protection of internationally proclaimed human rights; and
	Principle 2	make sure that they are not complicit in human rights abuses.
Labour	Principle 3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
	Principle 4	the elimination of all forms of forced and compulsory labour;
	Principle 5	the effective abolition of child labour; and
	Principle 6	the elimination of discrimination in respect of employment and occupation.
Environment	Principle 7	Businesses should support a precautionary approach to environmental challenges;
	Principle 8	undertake initiatives to promote greater environmental responsibility; and
	Principle 9	encourage the development and diffusion of environmentally friendly technologies.
Anti-Corruption	Principle 10	Businesses should work against corruption in all its forms, including extortion and bribery.

## Glossary of metrics and terminology

### **Waste Intensity:**

Combined landfill plus incineration waste intensity in tonnes/USDmn revenue

### **Water Intensity:**

m<sup>3</sup>/USDmn revenue for selected company against peer companies and peer group

### **Percentage of Women on Board:**

Percentage of a company's board comprised of women

### **Percentage of Board Independence:**

Percentage of a company's board comprised of independent directors

## **Risk Disclosures:**

- The value of investments and any income from them can go down as well as up and you may not get back the amount originally invested.
- The value of investible securities can change over time due to a wide variety of factors, including but not limited to: political and economic news, government policy, changes in demographics, cultures and populations, natural or human-caused disasters etc.
- The Fund may invest in Emerging Markets, these markets are less established, and often more volatile, than developed markets and involve higher risks, particularly market, liquidity and currency risks.
- Investment Leverage occurs when the economic exposure is greater than the amount invested, such as when derivatives are used. A Fund that employs leverage may experience greater gains and/or losses due to the amplification effect from a movement in the price of the reference source.
- Operational risks may subject the Fund to errors affecting transactions, valuation, accounting, and financial reporting, among other things.
- The possibility that the counterparty to a transaction may be unwilling or unable to meet its obligations.
- Liquidity Risk is the risk that a Fund may encounter difficulties meeting its obligations in respect of financial liabilities that are settled by delivering cash or other financial assets, thereby compromising existing or remaining investors.
- Emerging Markets Risk Emerging markets are less established, and often more volatile, than developed markets and involve higher risks, particularly market, liquidity and currency risks.
- Further information on the potential risks can be found in the Key Investor Information Document (KID) and/or the Prospectus or Offering Memorandum.

## Disclaimers

**S&P Trucost Limited:** Reproduction of any information, data or material, including ratings ("Content") in any form is prohibited except with the prior written permission of the relevant party. Such party, its affiliates and suppliers ("Content Providers") do not guarantee the accuracy, adequacy, completeness, timeliness or availability of any Content and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such Content. In no event shall Content Providers be liable for any damages, costs, expenses, legal fees, or losses (including lost income or lost profit and opportunity costs) in connection with any use of the Content. A reference to a particular investment or security, a rating or any observation concerning an investment that is part of the Content is not a recommendation to buy, sell or hold such investment or security, does not address the suitability of an investment or security and should not be relied on as investment advice. Credit ratings are statements of opinions and are not statements of fact.

**MSCI:** Neither MSCI nor any other party involved in or related to compiling, computing or creating the MSCI data makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of such data. Without limiting any of the foregoing, in no event shall MSCI, any affiliates or any third party involved in or related to compiling, computing or creating the data have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. No further distribution or dissemination of the MSCI data is permitted without MSCI's express written consent.

**Sustainalytics:** This [publication/ report/ section] contains information developed by Sustainalytics. Such information and data are proprietary of Sustainalytics and/or its third parties suppliers (Third Party Data) and are provided for informational purposes only. They do not constitute an endorsement of any product or project, nor an investment advice and are not warranted to be complete, timely, accurate or suitable for a particular purpose. Their use is subject to conditions available at <https://www.sustainalytics.com/legal-disclaimers>.

**SFDR:** Detailed information for article 8 and 9 sustainable investment products, as categorised under the Sustainable Finance Disclosure Regulation (SFDR), including; description of the environmental or social characteristics or the sustainable investment objective; methodologies used to assess, measure and monitor the environmental or social characteristics and the impact of the selected sustainable investments and; objectives and benchmark information, can be found at: <https://www.assetmanagement.hsbc.co.uk/en/intermediary/investment-expertise/sustainable-investments/sustainable-investment-product-offering>.

## Important Information

The material contained herein is for marketing purposes and is for your information only. This document is not contractually binding nor are we required to provide this to you by any legislative provision. It does not constitute legal, tax or investment advice or a recommendation to any reader of this material to buy or sell investments. You must not, therefore, rely on the content of this document when making any investment decisions. This material is not intended for distribution to or use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation. This material is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe to any investment. Any views expressed were held at the time of preparation and are subject to change without notice. While any forecast, projection or target where provided is indicative only and not guaranteed in any way. HSBC Global Asset Management (UK) Limited accepts no liability for any failure to meet such forecast, projection or target. This fund is a sub-fund of the HSBC Global Investment Funds, a Luxembourg domiciled Société d'investissement à Capital Variable (SICAV). UK based investors in HSBC Global Investment Funds are advised that they may not be afforded some of the protections conveyed by the provisions of the Financial Services and Markets Act 2000. HSBC Global Investment Funds is recognised in the United Kingdom by the Financial Conduct Authority under section 264 of the Act. The shares in HSBC Global Investment Funds have not been and will not be offered for sale or sold in the United States of America, its territories or possessions and all areas subject to its jurisdiction, or to United States Persons. All applications are made on the basis of the current HSBC Global Investment Funds Prospectus, Key Investor Information Document (KIID), Supplementary Information Document (SID) and most recent annual and semi-annual reports, which can be obtained upon request free of charge from HSBC Global Asset Management (UK) Limited, 8 Canada Square, Canary Wharf, London, E14 5HQ. UK, or the local distributors. Investors and potential investors should read and note the risk warnings in the prospectus and relevant KIID and additionally, in the case of retail clients, the information contained in the supporting SID. To help improve our service and in the interests of security we may record and/or monitor your communication with us. HSBC Global Asset Management (UK) Limited provides information to Institutions, Professional Advisers and their clients on the investment products and services of the HSBC Group. Approved for issue in the UK by HSBC Global Asset Management (UK) Limited, who are authorised and regulated by the Financial Conduct Authority. [www.assetmanagement.hsbc.co.uk](http://www.assetmanagement.hsbc.co.uk) Copyright © HSBC Global Asset Management (UK) Limited 2022. All rights reserved. Further Information can be found in the prospectus and in our Key Investor Information Documents published in our Fund Centre at [www.assetmanagement.hsbc.co.uk](http://www.assetmanagement.hsbc.co.uk)