

# Our Exchange Traded Funds (ETFs)

## A broad range of opportunities

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**HSBC**  
Global Asset  
Management

## HSBC ETFs AUM

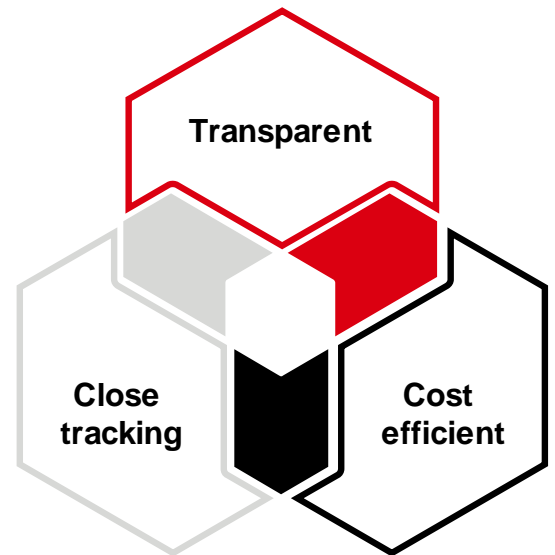
# USD 9.5bn

### HSBC Exchange Traded Funds

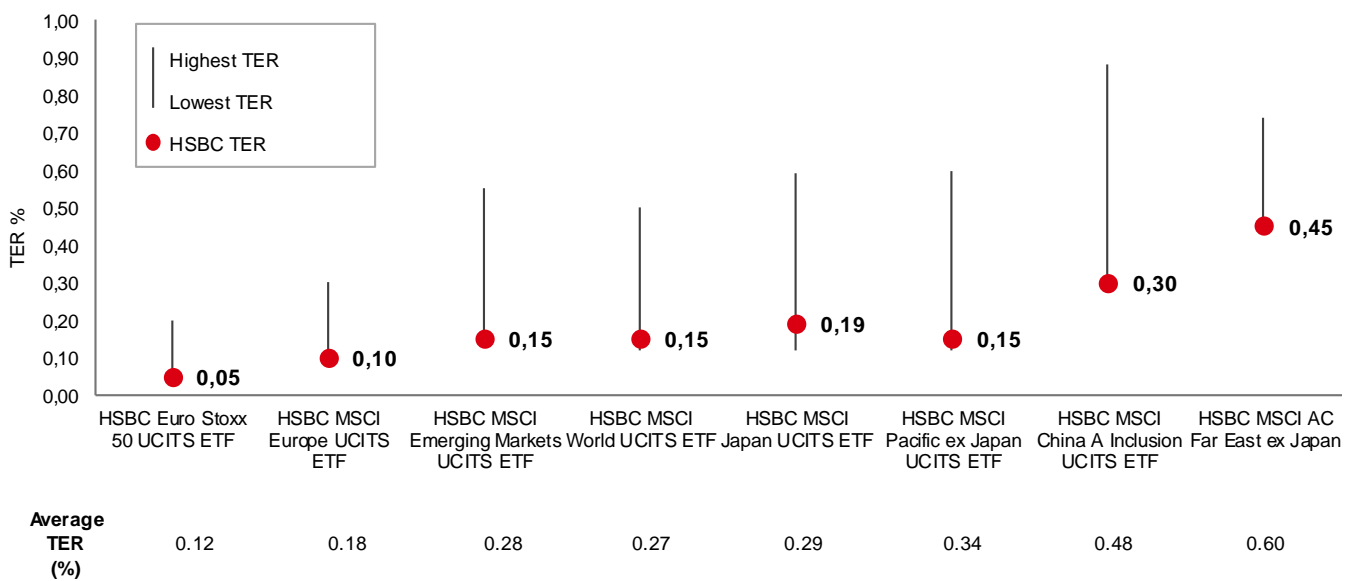
Our comprehensive range of 34 ETFs offers our clients access to developed and emerging equity markets at global, regional and country levels. We are recognised as experts in emerging markets, underpinned by our footprint, our local market knowledge and access through our global network. This has allowed us to develop a successful broad emerging market ETF range to sit alongside our developed market products. This combined offering allows investors to access global equity markets and manage global investment portfolios.

### Cost efficiency in practice

At the heart of our investment process is managing minimum tracking error budgets, while minimising the funds execution costs. We have a proven track record in providing competitively priced market access solutions; supported by our dedicated portfolio management teams, our investment in the latest trading technology and a dedicated global equity dealing team.



We recognise that the cost of investing is one of the main drivers when selecting an ETF. As such, our range of products offers investors an easy access to different markets through competitive TERs, mostly below market average<sup>1</sup>.



1. Market average has been computed by looking at the TER of the largest Europe-domiciled ETFs tracking the same benchmark. Source: Bloomberg and HSBC Global Asset Management, as at end of September 2020. Any differences are due to rounding.



### Targeted product offering

Core index capabilities covering a large variety of markets



### Competitive pricing

The ability to offer competitive TER/OCF across our ETF range



### Track record and performance

A strong history of low tracking error drawn from our deep experience in index based investing



### On-the-ground expertise

Specialised ETF Sales and ETF Capital Markets teams

## Why HSBC ETFs?



### Robust investment process

In-depth analysis of portfolio universe  
Robust technology and support infrastructure  
Rigorous risk monitoring



### Proprietary resources

Robust in-house systems designed to support efficient investment processes



### Transparency

Fully transparent with physical replication, no securities lending  
All constituents online



### Liquidity and accessibility

Quoted continuously throughout the day on European exchanges  
Market-making commitments for all products

## Expertise in index and systematic equity

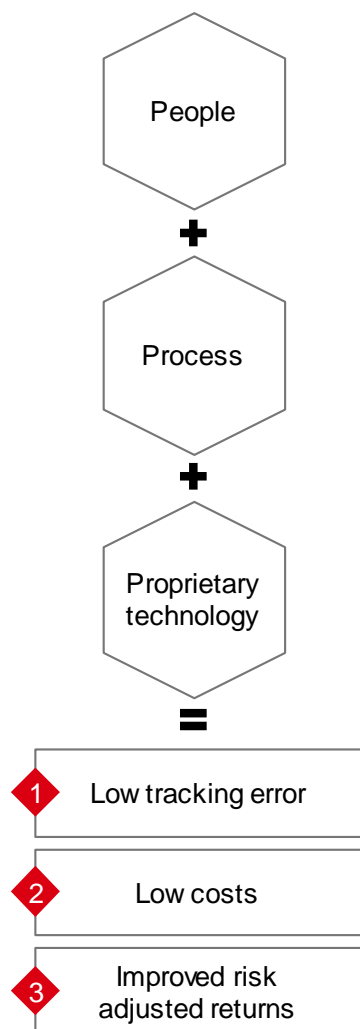
We have successfully managed index funds for external clients since 1988, with dedicated portfolio management teams across global markets leveraging our infrastructure and expertise. We currently manage over USD 59 billion in passive and systematic strategies. Our ETF solutions are built on our strong index tracking heritage, integrated platform and disciplined process.

## A distinctive approach

We take a pragmatic approach to managing ETFs with two equally important objectives: close tracking and minimising costs.

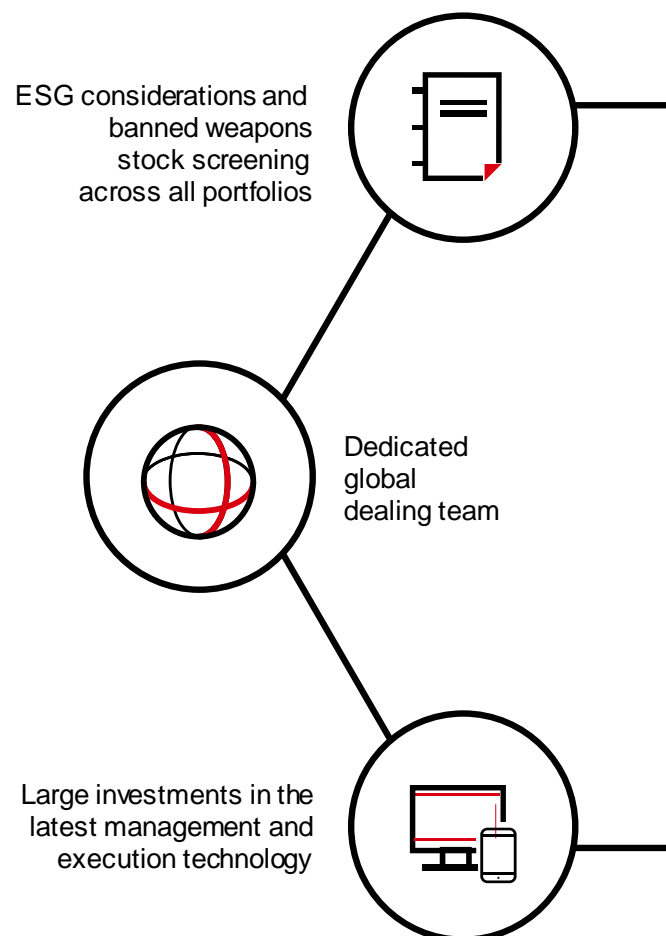
This dual objective is achieved through our experienced teams, our disciplined and diligent processes and our development of robust tools integrated across our global network.

This value-added approach to managing passive funds has enabled us to produce returns that closely mirror the index within target tracking tolerances.



# 30+ years experience managing passive and systematic equity portfolios

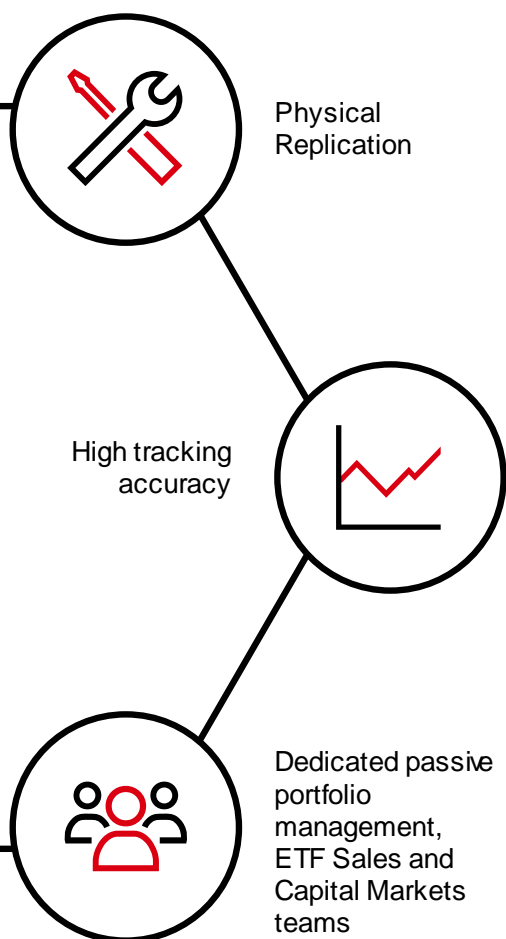
## The strength of our capability



# The Asset Management AWARDS 2020

## WINNER

PASSIVE MANAGER OF THE YEAR



Performance information above refers to the past and should not be seen as a guide to the future. The presented funds may not be registered for sale in your country.

### Strong index tracking heritage

#### INDEX & ACTIVE SYSTEMATIC Strategies

Launched our first UK index fund – American Index Fund  
 1989 – FTSE All Share Index Fund, HSBC European Index Fund, and, HSBC Japan Index Fund  
 1994 – HSBC FTSE 100 Index Fund  
 1997/1998 – HSBC FTSE 250 Index Fund, and HSBC Pacific Index Fund

1<sup>st</sup> Multi Factor Institutional mandate

Global Equities (MSCI ACWI based) strategy launched  
 UK Mutual funds launched – US, UK and Japan country funds

2009 – listed our first ETFs on the LSE  
 Launched 24 ETFs across developed and emerging markets  
 2010 – cross listed our ETFs across France, Germany and Switzerland

Launch of our Fundamentally Weighted Strategies: Economic Scale Equity

Launch of UCITS Common Contractual Funds, based on our Economic Scale Equity Strategies – offering tax efficient, transparent cross border pooling

Launch Multi Factor strategies – Income, HGIF Global Lower Carbon Equity  
 Launched two new Active ETFs – following our proprietary Active Systematic strategies

Launch of our new ICAV platform in Ireland to promote our passive funds cross border.  
 Launch of MSCI China A Inclusion Index UCITS ETF

Launch of MSCI Saudi Arabia 20/35 Capped UCITS ETF  
 Launch of new ICAV funds – Global Equity Index, US Equity Index and Multi Factor Worldwide Equity

Launch of new HSBC Sustainable Equity ETF range

1988 - 1998

2004

2006

2009 - 2011

2012

2015

2017

2018

2019

2020

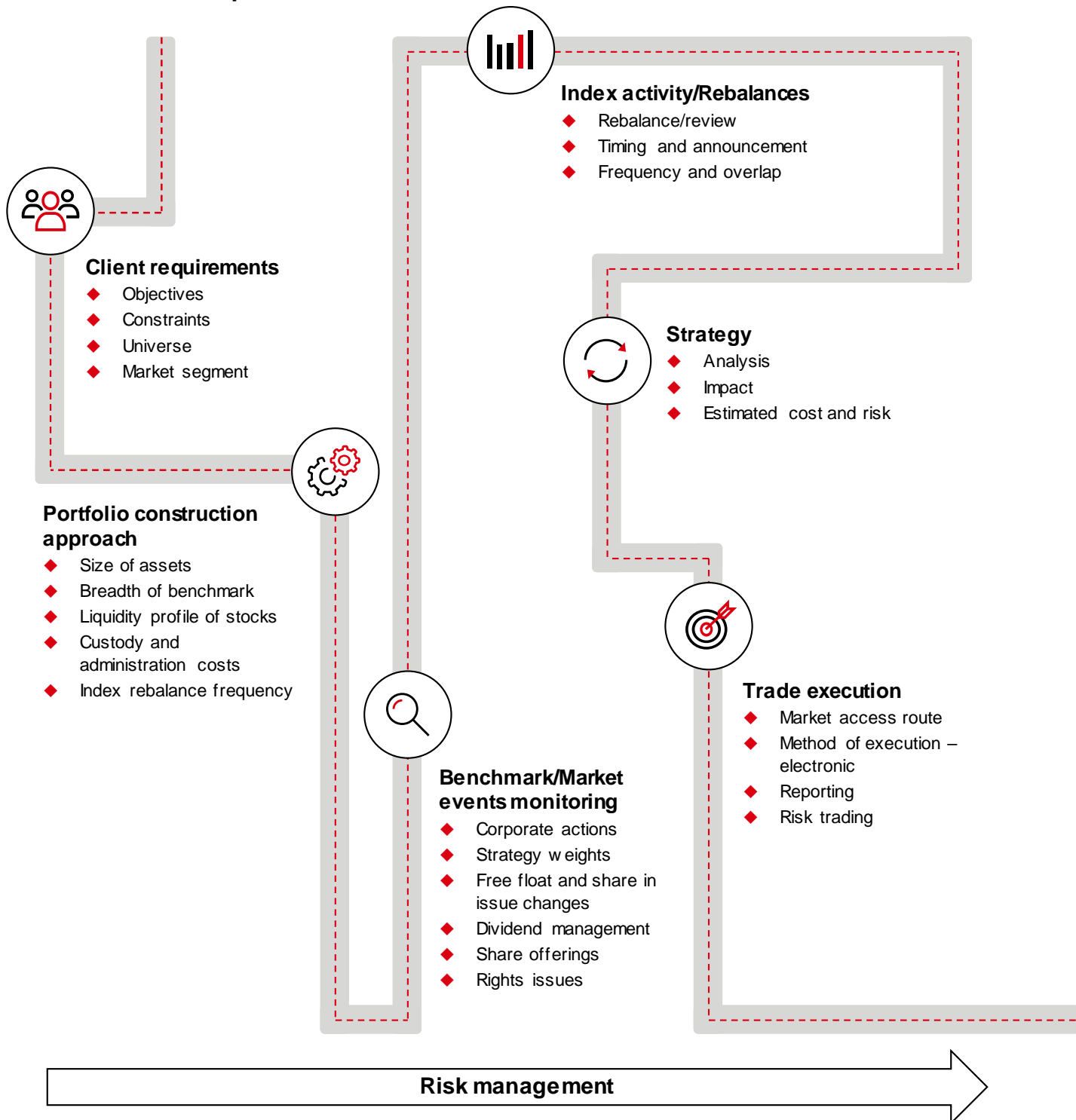
30 years of experience in index and quantitative equity management

2000	Launch of proprietary quantitative tools  2011 Establishment of Systematic Research team within HSBC Global Asset Management. Developing our active systematic model portfolios and building research and insights leveraged by our equity portfolio managers	Core research team Strategy, portfolio construction and research
2012	Development of our industry leading Visualiser platform, a proprietary portfolio modelling, construction and risk analytics system – integrated across our global network	Portfolio modelling/ construction
2015	Launch of HSBC's proprietary portfolio and stock investment decision tool – TRAC – supporting our passive investment process to deliver improved and scalable execution	Portfolio/stock management
2016	Roll out and further integration of PECMan, the proprietary Cash Management Investment Decision Tool – supporting our passive investment process	Cash management
2015	Updates to our risk modelling – creation of proprietary tools and resources	Risk modelling
2015+	Use of trade optimisation techniques that improve risk/ adjusted returns focusing on the equity market trading micro structure, with access to data and technology to enhance the process and fund risk adjusted returns	Trading/implementation
2016+	Proprietary projection of index changes by the HSBC Index Funds team	Index projections

Developing proprietary technology

Enhancements to our process

## Our ETF investment process



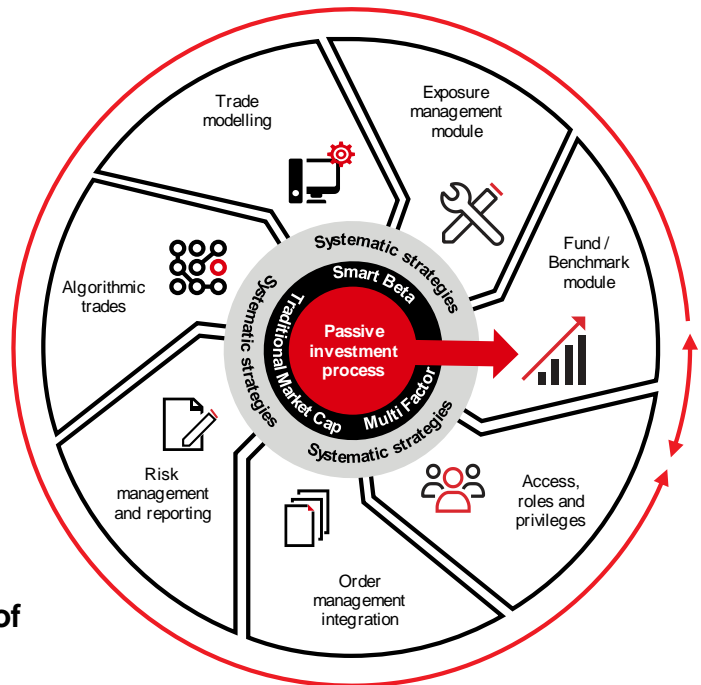
Source: HSBC Global Asset Management. For illustrative purposes only.

## Investing in proprietary technology

We invest continuously in advanced technology to support our investment process and seize opportunities for our clients as they emerge. Our leading proprietary technology ensures the efficiency and accuracy of information – supporting consistent tracking and fund performance. Our technological developments are integrated into our investment platform, providing:

- ◆ In-house proprietary trade algorithms and portfolio construction optimisation techniques,
- ◆ Direct feeds of large pools of data,
- ◆ Risk management coded and embedded across the platform at both pre and post-trade.

Our proprietary technology has been designed by our investment teams to meet their rigorous and robust requirements to ensure cost savings and better performance outcomes for our clients.



## Banned weapons screening: the benefit of doing the right thing

The Convention on Cluster Munitions (CCM) took effect in August 2010. However, differing implementation across countries has meant that laws around passive funds investing are not clear cut.

We have implemented a screening of banned weapons such as cluster munitions, anti-personnel mines, biological weapons, chemical weapons, non-detectable fragments, and blinding laser weapons across the entire active and passive ranges – excluding investments in issuers that are involved in these weapons.

We believe the decision to expand the screening across all our equity investments is the right one, as:

- ◆ We aim to comply with the spirit and the letter of the law
- ◆ The screening currently has a minor performance/tracking impact
- ◆ The focus on this subject increases, companies still involved might choose to cease their involvement, reducing the need for screening

## Physical replication and optimisation

Our passive equity funds benefit from our physical replication approach, where our portfolios are invested in the constituents of the underlying index and do not use synthetic instruments, such as swaps and other derivatives, to mirror index performance.

In cases where buying all the underlying securities is not cost-effective, physical funds can use an optimised method of portfolio construction and trade generation. The optimisation method purchases a representative proportion of securities in the underlying index, which is highly correlated to owning the entire index. Optimisation offers lower costs, especially in regards to broad indices that comprise a very large number of stocks, such as the MSCI Emerging Markets Index.

We do not engage in securities lending. Our portfolios are all physically invested in their underlying index.



**Closely Tracked,  
Minimised  
Execution Costs**

## Considered implementation

Through considered implementation, we aim to find the optimal trade-off between temporary tracking error and transaction costs, when trading at large rebalance points, such as an index reconstitution or a portfolio model review. The optimal balance and duration of implementation is important in achieving this objective and ultimately improves portfolio performance over time.

Our research has shown this approach adds to the performance of passive portfolios and is driven as a function of the size of the opportunity set available, i.e. frequency of rebalances and number of index changes. The diversification of implementation is based on the detailed analysis of trade characteristics such as liquidity, demand and supply profiles, volume multiple indicators, price movements over short periods, expected market impact, and portfolio risk.

## Dedicated global equity dealing team

We have traders located in key regional execution hubs. This is fundamental, as the expertise is connected to the market and exchange they operate in. This means our equity trades are handled by specialists with local knowledge, expertise and relationships, who are familiar with local service providers. At the end of the day, this can go a long way to deliver the best outcomes for investors.

Achieving the best executed price at the lowest cost is equally as important and this is where we have developed innovative trading approaches and developed proprietary technology to ensure fast, effective and low cost execution.

Together with our investment teams' expertise, our trade execution provides an opportunity for added-value performance to our portfolios.

## Underpinned by robust research

Key to ensuring better fund performance is utilising our investment knowledge and in-house technology to anticipate, to a very high degree of accuracy, how the index stock members will change over time – and deep understanding of index rules which determine the indices constituent members.

By leveraging our expertise, experience and knowledge of our portfolio managers and quantitative research teams, we can make investment decisions which result in better execution and fund performance.

Crucial to the success is a disciplined approach to risk management, use of technology and access to large pools of big data.

## Enhanced risk management, control and monitoring

Risk management and the control of a range of risks is vital to our investment process – not only during portfolio construction but through the life cycle of the portfolio. Risk management is central to our investment process before and after investment decisions are made.

Ongoing risk management includes investment operating parameters, tracking error risk, counterparty risk, exposure risk and the accuracy of analysis of performance attributions and exposures to different parts of the underlying market.

We also manage and implement the impact of index rebalancing, currency exchange rate exposures, corporate action events, such as mergers and acquisitions, stock splits, rights issues, spin-offs or the receipt of interest and dividends.

As a bank owned asset manager, we are subject to more robust risk parameters and stricter governance rules. Our risk management division also benefits from its alignment and operation within the global framework of the HSBC Group. This facilitates the sharing of best practice controls and ideas while also ensuring the independence of our risk management division.



## How to invest in HSBC ETFs

Our ETFs can be bought through a regulated stock exchange. They are an easy to use, low cost investment option and widely available on most online brokerage accounts and through financial advisers.

## Stockbroker

You can buy our ETFs during daily trading hours using a stockbroker. If you do not have a stockbroker, then the exchange can help you locate one. Please note that other fees may apply.

HSBC ETFs are listed throughout European stock exchanges:

- ◆ London Stock Exchange
- ◆ Deutsche Boerse
- ◆ Euronext Paris
- ◆ SIX Switzerland
- ◆ Borsa Italiana
- ◆ BIVA

## Execution platforms

HSBC ETFs can be purchased via a wide range of execution platforms, some of which are listed below:

Aegon	Elevate	Raymond James
AJ Bell	Fidelity Funds Network	Standard Life
Alliance Trust Savings	James Hay	Transact
Ascentric	Novia	Zurich
Aviva Wrap	Nucleus	

## Contacts

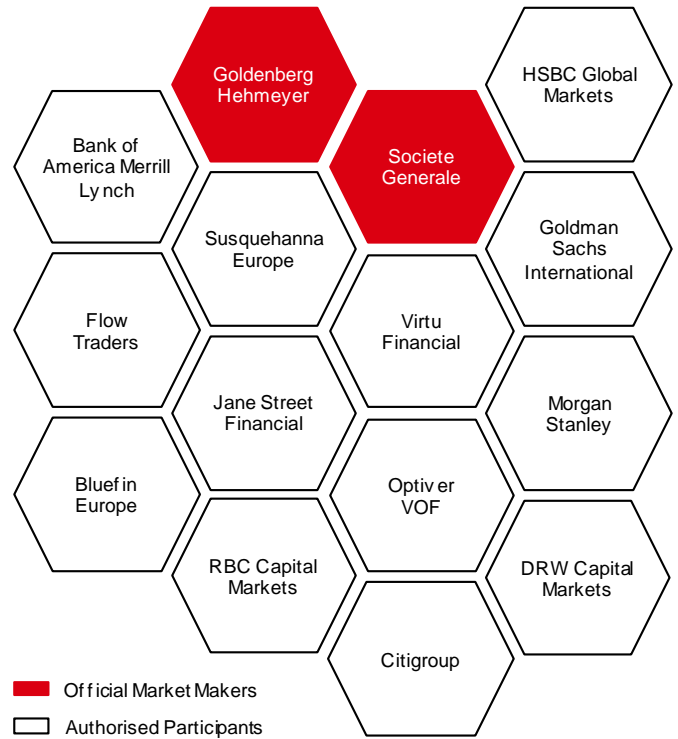
For more information, please contact us.

 [etf.sales@hsbc.com](mailto:etf.sales@hsbc.com)  
[etfcapmarkets@hsbc.com](mailto:etfcapmarkets@hsbc.com)

 <https://www.etf.hsbc.com>


## Authorised participants<sup>1</sup>

Supported by a large network of authorised participants, the following list of institutions are authorised to create and redeem shares in our ETF range:




## Contacts (Germany / Austria)

For more information, please contact us.

 +49 (0)211 910 4784

 [investorservices@hsbc.de](mailto:investorservices@hsbc.de)

 [www.assetmanagement.hsbc.de/etfs](http://www.assetmanagement.hsbc.de/etfs)

1. The contact details of our authorised participants are available on our dedicated ETF website: [www.etf.hsbc.com/etf/uk](http://www.etf.hsbc.com/etf/uk)  
 Source: HSBC Global Asset Management. For illustrative purposes only.

## Key risks

The value of an investment in the portfolios and any income from them can go down as well as up and as with any investment you may not receive back the amount originally invested.

- ◆ **Concentration Risk:** The Fund may be concentrated in a limited number of securities, economic sectors and/or countries. As a result, it may be more volatile and have a greater risk of loss than more broadly diversified funds.
- ◆ **Counterparty Risk:** The possibility that the counterparty to a transaction may be unwilling or unable to meet its obligations.
- ◆ **Derivatives Risk:** Derivatives can behave unexpectedly. The pricing and volatility of many derivatives may diverge from strictly reflecting the pricing or volatility of their underlying reference(s), instrument or asset.
- ◆ **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.
- ◆ **Exchange Rate Risk:** Changes in currency exchange rates could reduce or increase investment gains or investment losses, in some cases significantly.
- ◆ **Index Tracking Risk:** To the extent that the Fund seeks to replicate index performance by holding individual securities, there is no guarantee that its composition or performance will exactly match that of the target index at any given time ("tracking error").
- ◆ **Investment Fund Risk:** Investing in other funds involves certain risks an investor would not face if investing in markets directly. Governance of underlying assets can be the responsibility of third-party managers.
- ◆ **Investment Leverage Risk:** 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.
- ◆ **Liquidity Risk:** 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.
- ◆ **Operational Risk:** Operational risks may subject the Fund to errors affecting transactions, valuation, accounting, and financial reporting, among other things.
- ◆ **Real Estate Investments Risk:** Real estate and related investments can be negatively impacted by any factor that makes an area or individual property less valuable.

Further information can be found in the prospectus and Key Investor Information Document (KIID).

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