

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)

July 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 (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.

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 2050.¹



Energy Efficiency

Globally enhanced energy efficiency investments could boost cumulative economic output by USD18trn to 2035, increasing growth by 0.25-1.1% per year.²



Clean Transport

Improved and digitalised planning in shipping could lead to fewer kilometers travelled, allowing for industry revenue benefits of USD1.5trn by 2025.³



Green Buildings

In emerging markets alone, Green Buildings are expected to be a USD24.7 trillion investment opportunity by 2030.⁴



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.⁵



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.⁶

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 USD5trn/year.⁷



Circular economy and resource efficiency

Switching to a circular economy could unlock an additional USD4.5trn of global GDP by 2030.⁸

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.⁹

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.

- ❑ **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.

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

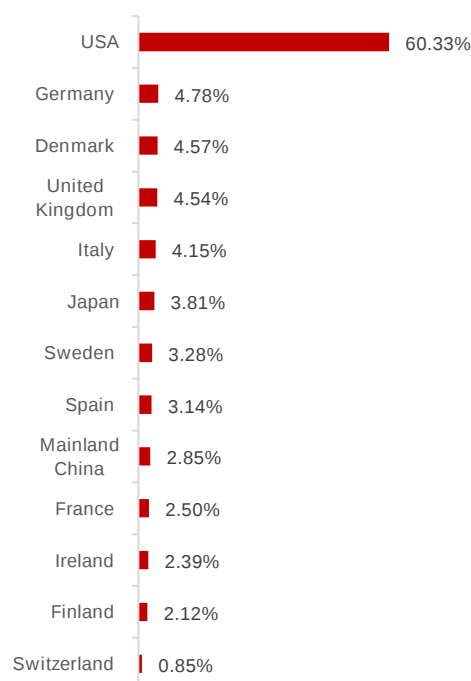
Portfolio

Instrument	Weight
MICROSOFT CORP 10127941	4.8%
TRANE TECHNOLOGIES PLC 10176037	4.7%
SCHNEIDER ELECTRIC SE 10126171	4.5%
ECOLAB INC 10148085	4.4%
INFINEON TECHNOLOGIES AG 10121724	4.2%
DEERE & CO 10127767	4.2%
PRYSMIAN SPA 10219956	4.1%
VERISK ANALYTICS INC 10128137	4.1%
ACCENTURE PLC-CL A 10134946	3.9%
WATTS WATER TECHNOLOGIES-A 10131327	3.5%
AUTODESK INC 10180280	3.3%
NIBE INDUSTRIER AB-B SHS 10224592	3.3%
EDP RENOVAVEIS SA 10218801	3.1%
FIRST SOLAR INC 10167587	3.1%
HUBBELL INC 10175744	3.1%
ORSTED A/S 10126596	2.7%
PROLOGIS INC 10170612	2.6%
SENSATA TECHNOLOGIES HOLDING 10290745	2.5%
CAPGEMINI SE 10127147	2.5%
CRODA INTERNATIONAL PLC 10219190	2.3%
SSE PLC 10126679	2.3%
BALL CORP 10127285	2.1%
NESTE OYJ 10224559	2.1%
AZBIL CORP 10173157	2.1%
DANAHER CORP 10127833	1.9%
VESTAS WIND SYSTEMS A/S 10221212	1.9%
OMRON CORP 10169907	1.7%
AGILENT TECHNOLOGIES INC 10170968	1.7%
ADVANCED DRAINAGE SYSTEMS IN 10167506	1.4%
CIMC ENRIC HOLDINGS LTD 10229174	1.4%
WASTE MANAGEMENT INC 10180313	1.4%
KINGSPAN GROUP PLC 10228409	1.3%
ENPHASE ENERGY INC 10356844	1.3%
SMURFIT KAPPA GROUP PLC 10126638	1.1%
SOLAREDGE TECHNOLOGIES INC 10186773	1.0%
NARI TECHNOLOGY CO LTD-A 10140086	0.9%
TRIMBLE INC 10128089	0.9%
DSM-FIRMENICH AG 11440360	0.9%
BRENNTAG SE 10192479	0.6%
SUNGROW POWER SUPPLY CO LT-A 10430902	0.5%
[Cash]	0.7%
Total	100.0%

Sector Allocation (%)

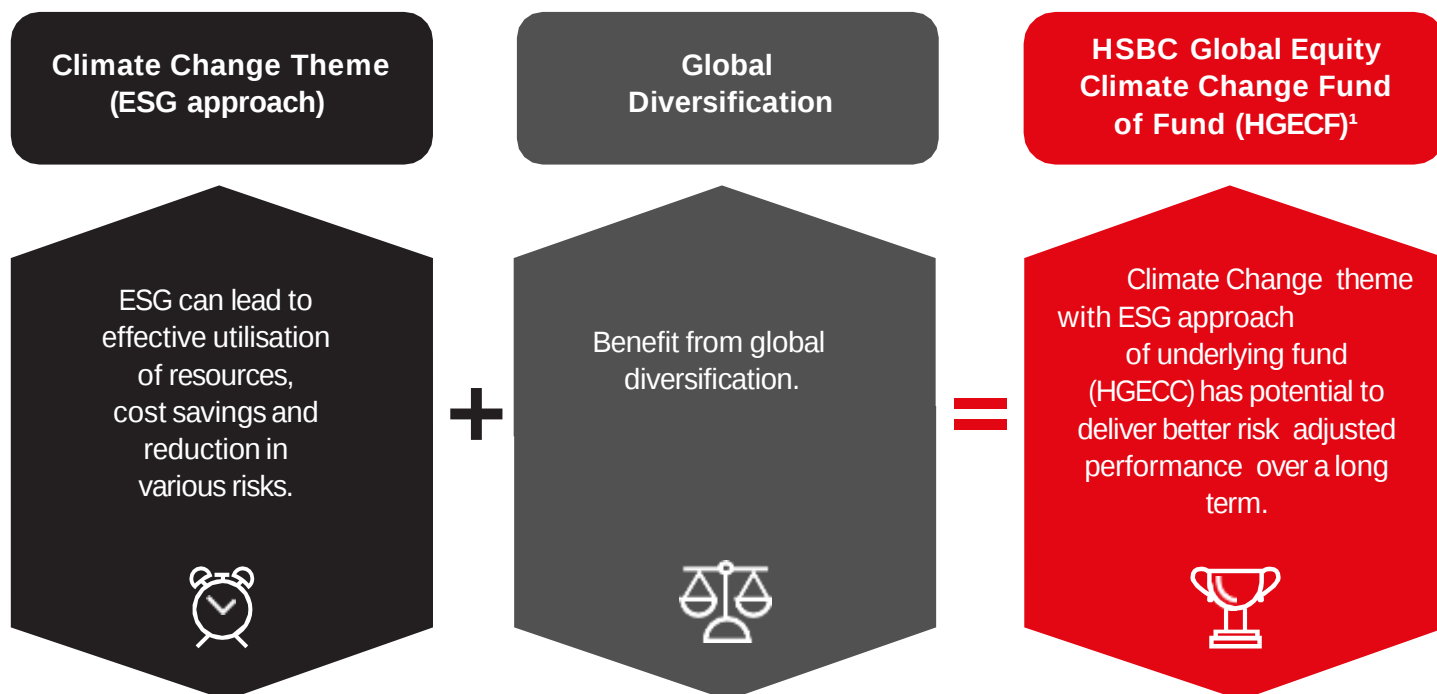
Sector	Weight
Industrials	43.44%
Information Technology	28.75%
Materials	10.74%
Utilities	8.06%
Health Care	3.62%
Real Estate	2.57%
Energy	2.12%
Consumer Staples	0.00%
Communication Services	0.00%
Consumer Discretionary	0.00%
Financials	0.00%
[Cash]	0.70%
Total	100.00%

Country allocation



HSBC Global Equity Climate Change Fund of Fund (HGECF)¹

HSBC Global Equity Climate Change Fund of Fund² 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 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.³

Fund Managers

Sonal Gupta

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

³The 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 ¹	Inception Date	AUM
Fund of Funds (Overseas)	Sonal Gupta	MSCI AC World TRI	22 Mar 2021	Rs. 273.95 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) ²				2.12%
Expense ratio (Direct)				1.33%

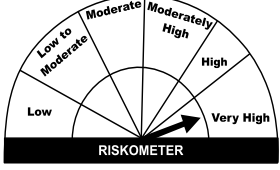
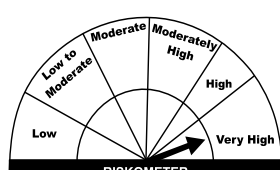
Portfolio

Issuer	Industries	% to Net Assets
Mutual Fund Units		97.01%
HSBC GIF GL EQ CLM CHG JCUSD	Overseas Mutual Fund	97.01%
Cash Equivalent		2.99%
TREPS*		3.92%
Net Current Assets:		-0.93%
Total Net Assets as on 30-June-2023		100.00%

Asset Allocation

International - Mutual Fund Units	97.01%
Reverse Repos/TREPS	3.92%
Net Current Asset	-0.93%
Total Net Assets as on 31-May-2023	100.00%

*TREPS : Tri-Party Repo, Data as on 30 June 2023

HSBC Global Equity Climate Change Fund of Fund		
 Investors understand that their principal will be at Very High risk	Fund of Funds (Overseas) - An open ended fund of fund scheme investing in HSBC Global Investment Funds – Global Equity Climate Change This product is suitable for investors who are seeking*: - To create wealth over long term. - Investment predominantly in companies positioned to benefit from climate change through fund of funds route	Benchmark: MSCI AC World TRI 

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

¹ 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

²Continuing 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 on 30 June 2023

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

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