Submission ID

P39002

Region

Hong Kong

Category

Greater China Equity

Name of firm

The Hongkong and Shanghai Banking Corporation Limited

The underlying Fund mirrored for the MPF Constituent Fund

HSBC MPF SuperTrust Plus - Chinese Equity Fund

The Fund's ISIN Code

NA

Data as of the quarter-end

30/06/2021

Total Fund Size (including all share classes)

USD2,284.55 million as of 30 June 2021.

Total Number of Portfolio Manager(s)

1 as of 30 June 2021

Total Number of Analysts

6 as of 30 June 2021

Pillar 1 - Investment Approach

1. Investment style consistency: Who has the ultimate responsibility for keeping the investment style consistent under all conditions and circumstances?

The CIO

2. Investment style consistency: If the investment style deviates, are there material, negative consequences for the person with ultimate responsibility for ensuring style consistency?

Yes, there are material consequences, including bonus reduction, promotion freeze and/or specific financial consequences on the ultimately responsible individual

3. Investment process: Does the investment process include any of the following.

*We have a clear and consistent investment process
*We have the strategy to have a target investors' risk/return profile
*The initial screening of the investment universe account for target investors' needs
*We generate ideas from the bottom up, e.g., drilling down into a potential investee's business model, moat, future cash flow, etc.
*We generate ideas from macro views, e.g., structural shifts, economic cycles, regime change, regulatory shifts, etc.
*The risk managers are consulted at one or more points during the research, investment, divestment processes

4. Do you take ESG as Investment/Divestment materiality consequences?

Yes.

Environmental

100

Social

100

Governance

100

5. ESG as Investment Process [v]: Is ESG information is used in an investment product's investment process or stewardship activities?

Yes

Selected: Yes

*As investment managers, we allocate efforts to evaluate the reliability of the ESG information used, including the following:

Selected: As investment managers, we allocate efforts to evaluate the reliability of the ESG information used, including the following:

*Independent evaluation of information reported by investees or provided by ESG data providers
*Cross-referencing two or more sources of information
*Evaluation of the accuracy or completeness of a dataset when determining the sources and types of ESG information that will be used in the investment process
*Evaluation of models that estimate or interpolate missing data elements
*Evaluation of how inherent uncertainty in specific data sets might affect investment decisions
*Establishment of data quality monitoring and controls
*Taking steps to validate anomalies, including notifying sources of potential errors

6. When determining the materiality of ESG factors[v] [vi], does the strategy consider the following factors: (an adaptation of the CFA ESG disclosure requirements and recommendations)

*The extent to which the materiality issue influences the objectives of the investment product or the likelihood of achieving them
*The extent to which the materiality issue affects investment decisions or the investment process
*Sector/geographic risk affecting an entire industry or region, including regulatory and technological materiality issues associated with the business activity the company is involved in and/or to the markets it sources or sells to

7. Response to capital/asset markets' structural changes: How is this investment strategy responding to these changes for investors' benefit?

We are aware of the structural shifts, but we do not think our investment strategy needs to adjust in response

8. Actual Example - Please provide an ACTUAL example of how you executed ONE of the following, in a maximum of 500 words.

Maintained investment style consistency during a particularly challenging time for the portfolio

Please briefly describe the critical challenge/s, actions taken, results and lessons learned:

Regulatory headwind has been one of the major risks of Chinese equities market from late 2020 after the largest Fintech company in mainland China “Ant Group” unexpectedly suspended its IPO. After China tightened the rules for foreign IPOs in a new blow to tech giants in early July, there have been a series of regulatory changes in China, covering internet / fintech / education / food delivery / healthcare, etc. These regulatory changes have had a major impact on the equity market especially for the affected industries, after-school-tutoring education sector in particular. Chinese education sector with long-term growth prospects has been popular among fund managers. The sector also performed very well over the past few years. However, turning point for the industry came in March after several media reported potential tightening in afterschool tutoring regulation. Most of the education names have tumbled over 90% from their peak just within 3 months.Given our focus on companies that we believe can deliver long term sustainable growth with solid business model. Unpredictable policy risk added difficulties of evaluating the future earnings and business environment of the companies. Our Chinese Equity fund held the two industry leaders last year. However, the portfolio manager has started trimming down the positions in January given high valuation. Our analysts have also closely monitored the regulatory risks after the media report in March and decided to clear all positions in early April as our “worst case scenario analysis” showed a potentially destructive impact on the company earnings. We successfully avoided the huge correction in education sector.

Meanwhile, there may be times when markets might be shrouded in pessimism. Temporary events might make markets choppy at times, and we accept that markets would go through periods of correction. We believe that it is crucial to remain disciplined and true to our philosophy and process in these periods, in order to deliver long-term outperformance. Volatility created opportunities to get in positions with businesses that are temporarily affected by some policies, but have large long-term development space and core competitiveness. We managed to underweight affected industries and rotated to more defensive sectors, which successfully drove our performance in 2021.Note: Investment involves risk. For illustrative purposes only and does not constitute any investment recommendation.