

## Pillar 2 - Portfolio Management

**1. Portfolio Limits: does the fund have explicit portfolio limits such as, but not limited to, single country, single sector, single security, single asset class, the correlation between securities, or other spelled-out limits.**

We are a Constrained Fund

### **Additional Remarks, if any (maximum 250 words)**

Answer for question 3 below:

We do not have an exclusion policy on ESG for the strategy. ESG analysis is an integrated element in our research process. We carry out an ESG analysis of all potential investments alongside the financial analysis using proprietary ESG databases and third-party analysis, to help identify possible high-risk names when screening and rating stocks. Each security is rated high, medium or low. The highest risk securities undergo an enhanced due diligence assessment and additional senior investment professional or CIO sign-off before a portfolio manager can invest. Furthermore, all internal company-level research documents have an ESG section. All these documents are made available via our various front office tools.

### **Constrained Fund - the portfolio manager can deviate from the explicit limits by:**

By a maximum of 5 percentage points

**2. Portfolio level ESG characteristics [iv]: We have decided ESG criteria to be used as our portfolio characteristics that include:**

- \*  Scope 1 and Scope 2 greenhouse gas emissions
- \*  Board gender diversity
- \*  Breakdown of energy consumption by type of non-renewable sources of energy
- \*  Share of investments in investee companies that have been involved in violations of the UN Global Compact principles or OECD Guidelines for Multinational Enterprises
- \*  Exposure to specific industries, sectors, and geographies with adverse impacts on
- \*  ESG issues

**4. The number of holdings [i]: What is the average number of securities in the fund over the last 3 years?**

45 - 59

**5. Security weight: What determines the weight of each security?**

- \* Liquidity at the security level
- \* Liquidity at the portfolio level
- \* Correlation with other securities in the portfolio
- \* Potential risk-adjusted returns relative to other securities in the portfolio
- \* Potential to produce alpha
- \* Material<sup>[ii]</sup> ESG merits of the investee
- \* Investee's response to our fund's/firm's engagement on material<sup>[iii]</sup> ESG issues
- \* Portfolio limits (explicit limits or soft guidelines) such as single issuer, single security, etc.

**6. Portfolio liquidity in normal markets: When we construct the portfolio, we account for short-to-medium liquidity at the portfolio level under normal market conditions.**

Our liquidity targets are better than the above (please specify in maximum 250 words)

**Please specify the liquidity targets in maximum 250 words.**

The Fund is able to liquidate by over 90% within 5 trading days in normal market condition.

**7. Portfolio liquidity in stressed markets: One key factor we consider when we construct the portfolio level is liquidity at the portfolio level under stressed market conditions.**

Our liquidity targets are better than the above (please specify in maximum 250 words)

**Please specify the liquidity targets in maximum 250 words..1**

The Fund is able to liquidate by over 90% within 5 trading days in stress market conditions if trading volume halves.

**8. Target active share <sup>[iii]</sup>: What is the target proportion of active shares for this strategy or fund?**

We do not have a target

**10a. Investment Bases: Our investment decisions are substantively based on the following.**

- \*  Security's liquidity in the secondary market
- \*  Valuation
- \*  Target price
- \*  Risk/return profile of a security relative to other positions in the portfolio
- \*  Investee's cash flow
- \*  Investee's ability to meet liabilities promptly/ credit quality
- \*  The ability of investee to benefit from structural changes in its industry
- \*  Investee's key management's track record
- \*  Validity of our investment thesis
- \*  Downgrade/upgrade of the investee by our analysts
- \*  ESG factors improving
- \*  Investee's response to our fund's/firm's ESG engagement
- \*  Market timing
- \*  Environmental factors have (or likely will have) a material[ii] impact on the investee's earnings, cash flow, competitiveness, business resilience, reputation, and other risk-return balance
- \*  Social factors have (or likely will have) a material[ii] impact on the investee's earnings, cash flow, competitiveness, business resilience, reputation, and other risk-return balance. In the case of investing, the material impact is positive.
- \*  Governance factors have (or likely will have) a material[ii] impact on the investee's earnings, cash flow, competitiveness, business resilience, reputation, and other risk-return balance. In the case of investing, the material impact is positive.

**Additional Remarks, if any (maximum 250 words)**

For answer on Question 9: 45%

**10b. Divestment Bases: Our divestment decisions are substantively based on the following.**

- \* Security's liquidity in the secondary market
- \* Valuation
- \* Target price
- \* Risk/return profile of a security relative to other positions in the portfolio
- \* Investee's cash flow
- \* Investee's ability to meet liabilities promptly/ credit quality
- \* The ability of investee to benefit from structural changes in its industry
- \* Investee's key management's track record
- \* Validity of our investment thesis
- \* Downgrade/upgrade of the investee by our own analysts
- \* ESG factors deteriorating
- \* Investee's response to our fund's/firm's ESG engagement
- \* Market timing
- \* Environmental factors have (or likely will have) a material[ii] impact on the investee's earnings, cash flow, competitiveness, business resilience, reputation, and other risk-return balance
- \* Social factors have (or likely will have) a material[ii] impact on the investee's earnings, cash flow, competitiveness, business resilience, reputation, and other risk-return balance. The material impact is negative, and the investee is not taking adequate steps to address these material social factors.
- \* Governance factors have (or likely will have) a material[ii] impact on the investee's earnings, cash flow, competitiveness, business resilience, reputation, and other risk-return balance. The material impact is negative, and the investee is not taking adequate steps to address these material governance factors.

**11. Portfolio managers' turnover: What is the portfolio managers' turnover rate over the last 12 months?**

>71%

**12. Analysts' turnover: What is the analysts' turnover rate over the last 12 months?**

<30%

**13. Research resources: How many securities does each analyst responsible for this fund cover on average?**

Fewer than 50

**14. Research depth: What types of research do you rely on to make investment decisions?**

- \*Our proprietary financial models
- \*Site visits to investees' facilities: We observe operational employees' effectiveness, productivity, attitude, initiative
- \*Site visits to investees: We observe the key processes or production of items that are salient to the investees' competitiveness
- \*One-to-one conversations with investees' management outside of scheduled conferences for all investment analysts
- \*We verify investees' claims with informed third parties, including but not limited to suppliers, customers, distributors, competitors, and industry specialists
- \*Earnings conference calls or meetings with investees' management which are scheduled for all investment analysts
- \*Independent consultants specializing in specific sectors, technologies, geographies, economies, factors, etc.
- \*Sell-side brokers' research

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

How did you integrate ESG into the investment/divestment decision-making process, and what is the outcome?

**Please briefly describe the critical challenge/s, actions taken, results and lessons learned:.1**

ESG analysis is an integrated element in our research process. We carry out an ESG analysis of all potential investments alongside the financial analysis using proprietary ESG databases and third-party analysis, to help identify possible high-risk names when screening and rating stocks. Each security is rated high, medium or low. The highest risk securities undergo an enhanced due diligence assessment and additional senior investment professional or CIO sign-off before a portfolio manager can invest. Furthermore, all internal company-level research documents have an ESG section. All these documents are made available via our various front office tools. We conduct our ESG analysis based on company disclosure, on-site visit, third party research and HSBC Global Asset Management's global resource.

Given the very limited data available, and the fact that Chinese corporates themselves are still developing their ESG approach, company disclosure and third party ESG research are not currently fully reflecting all E, S and G factors into every investment decision as compared to the more developed markets such as in Europe or in the USA. The industry is developing and the situation is changing rapidly. In 2019, 85% of Chinese Securities Index (CSI) 300 companies released annual ESG reports, up from 54% in 2013. However, among those companies that disclose ESG reports, only 12% have audited reports. Most companies have no processes for collecting high quality ESG data. In addition, companies report on ESG once a year and mainly to meet regulatory requirements. This naturally makes our ability to research stocks at source an important part of the process. We will also leverage the resources of our onshore joint venture in Shanghai, HSBC Jintrust, for China A listed companies. We mainly rely on analysts' engagement with target companies to study ESG related issues during their research and ongoing monitoring. Their on-the-ground presence provides an opportunity for direct engagement that other firms without a strong domestic presence may be unable to offer.