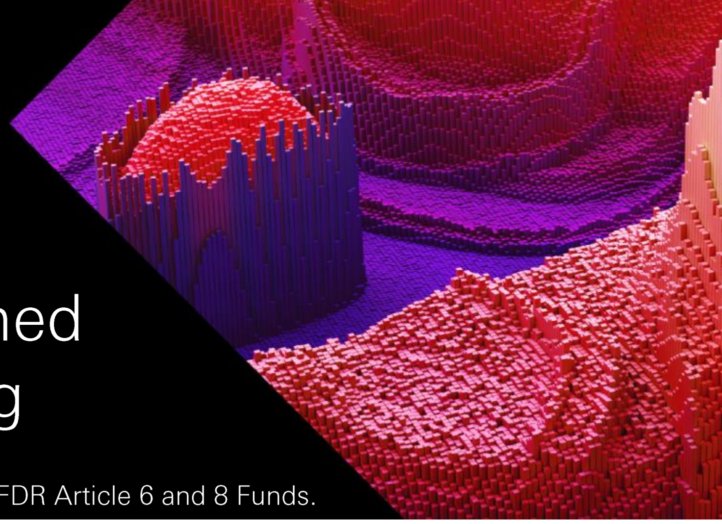
HSBC Asset Management



Inside our Active Quant Equity model - A disciplined approach to stock picking

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Every fund manager makes a case for why a company is worth buying and, usually, that case rests on a story: strong management, a growing market, a competitive edge that will hold up over time.

But Active Quant investing takes a different route. Rather than building a narrative stock by stock, it scores every company in its universe against a blend of measurable characteristics, then lets the numbers decide.

Daniela Hamoui, global head of the quant product specialist team at HSBC Asset Management, said the starting point is straightforward: "We invest in stocks with the right financial characteristics and think about the fundamentals that drive stock risk and return.

"We want to invest in stocks that have attractive valuations, that are not trading at an expensive price versus their peers. We want to invest in companies that are strong businesses, not over-leveraged, have good management and are profitable."

There is no single view of what makes a good investment. Instead, the HSBC Active Quant strategy is built around well-researched signals, applied consistently and updated as new information arrives.

What active quant investing actually means

The starting point is scale. Rather than researching a handful of companies in depth, the process runs the same evaluation across thousands of stocks, scoring each one using the same methodology but interpreting the results in context—relative to relevant sector and regional peers. That score underpins how the portfolio is built.

It is systematic in the truest sense, as the same rules apply to every stock, every time. But consistency doesn’t mean rigidity – scores are always interpreted in context, whether that’s sector, region or broader characteristics of the business itself. This removes a particular kind of risk from the process: the risk that a single, compelling story leads an investor to overlook the numbers.

HSBC Asset Management's Active Quant Equity model rests on five long-standing factor themes as a practical way to group signals, each with decades of academic research behind it and real-world market evidence.

Value asks a simple question: is this a reasonable price to pay for what you are buying? It is the oldest and most intuitive of the five factors, rooted in the idea that cheaper, fundamentally sound companies tend to outperform expensive ones over time.

Quality looks at the underlying business rather than its price tag. The aim is to invest in strong, profitable and resilient businesses. A company can look cheap for good reason, so quality is the check that separates a genuine bargain from a business in decline.

Momentum captures a different kind of evidence: that stocks and sectors already trending upward tend to keep doing so, at least for a while. The portfolio positions itself to capture these price trends as they develop, rather than trying to predict them in advance.

Source: HSBC Asset Management, data as at July 2026.

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The low risk factor takes a different approach to momentum, favouring steadier, less volatile companies. The goal is to find stocks that help make the overall investment journey smoother. It is a factor built for resilience rather than excitement.

Size looks to smaller companies, where lower institutional coverage and greater operational inefficiency have historically demanded a return premium – rewarding patient, long-horizon investors across full market cycles.

Individually, none of these ideas is new. Value investing dates back to the 1930s. What active quant investing adds is discipline: applying multiple signals consistently and at scale, without the human tendency to chase what's working right now – backed by robust, rules-based portfolio construction to keep risk tightly managed.

A disciplined, transparent platform backed by decades of quant expertise and proven track records.

Why five, not two or three?

Some investors might ask why stop at five signal themes, or why not concentrate on the two or three with the strongest track record.

Hamoui said HSBC Asset Management doesn't treat 'five' as a hard limit. "We use five factor families — value, quality, momentum, low risk and size — as a practical framework, but the engine behind them is HSBC's proprietary Alpha: multiple signals within each family, continuously researched, refined and, where justified, expanded over time."

The reason not to narrow the portfolio to just a couple of factors, she explained, comes down to diversification across market regimes. "Markets don't behave consistently through time. The macro backdrop and market structure evolve — sometimes you're in a strong risk-on environment, other times you're dealing with heightened volatility and dispersion. Factor exposures perform differently across these conditions, so building portfolios with genuine diversification across regimes is key."

Value, she noted, tends to do better in a more pro-risk environment and during economic recovery, as investors rotate into cyclical sectors. On the other hand, quality tends to be more defensive, as investors favour safety during periods of uncertainty. Holding all signals at once is designed to reduce reliance on any single one of them being in favour at the right time.

The point was tested during a sharp, sudden sell-off sparked by the US's Liberation Day tariffs. "We saw a significant market drawdown," Hamoui said. "We had exposure to quality and low-volatility stocks, which helped us outperform the broader market during that period."

A portfolio concentrated in just one or two signals, she said, would have been more exposed to that kind of short-term, regime-driven underperformance.

Tilting, not timing

None of this means the HSBC Active Quant Equity model treats all signals identically at all times. It does adjust, but cautiously and within limits, rather than chasing short-term swings.

"We're exposed to all of our alpha signals at all times, but one of the key things that we do is dynamically tilting towards those that are behaving well at a certain time. This aligns the portfolio with the prevailing factor environment," Hamoui said.

Hamoui said: "The scores are updated every day for us to risk-manage, but we want to rebalance and change the positions once a month, to be able to capture that predominance of a specific signal that's doing better."

This is a process built to lean gradually into what is working, not to jump in and out of signals as sentiment shifts week to week.

Source: HSBC Asset Management, data as at July 2026.

Resolving conflicting signals

In practice, few stocks score well on all signals at once. A company might look attractively priced but carry weaker quality metrics or show strong momentum while falling outside the size criteria the model favours. This is where portfolio construction earns its keep.

"It's very rare that a stock will rank well on all the scores," Hamoui said. "It's quite contrasting. Sometimes you have a value stock that can also be a quality stock, but the idea is to favour stocks with strong signal scores on average – tilting towards companies that, on balance, have the fundamentals and market characteristics associated with a better chance of outperformance over a full cycle."

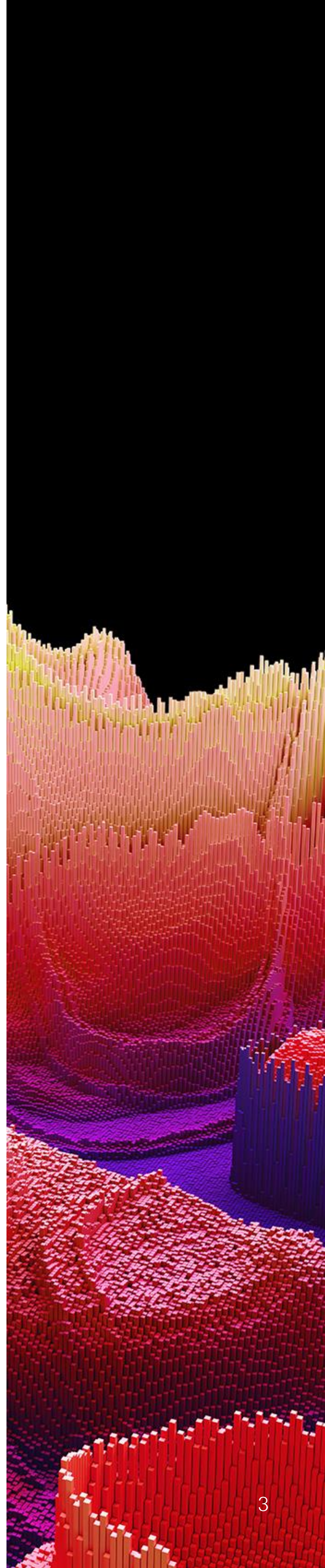
That does not mean any stock earns a place in the portfolio by default. Hamoui gave the example of a company that looks cheap but is significantly unprofitable relative to its peers (all else equal): "It will have a negative score, so it won't necessarily earn a place in the model."

The real distinction

It would be easy to conclude that Active Quant investing's advantage lies in the five factor themes themselves, but it does not. Value, quality, momentum, low risk and size are all well documented in decades of academic research and none of them is unique to HSBC Asset Management's Active Quant Equity approach.

The real distinction lies elsewhere: it's HSBC Asset Management's proprietary approach to constructing the underlying signals for alpha generation, and the discipline of combining all signals systematically across an entire universe of stocks — using a portfolio construction process designed to diversify exposures and manage risk. This is what separates a robust Active Quant process from traditional stock picking.

"Ultimately, choosing HSBC for Active Quant investing means accessing a very disciplined, transparent platform backed by decades of quant expertise and proven track records," Hamoui finished.



Source: HSBC Asset Management, data as at July 2026.

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