HSBC MSCI Paris-Aligned UCITS ETFs

Aligned with the world's efforts to reverse climate change

November 2021

For Professional Clients only

HSBC
Asset Management

The Paris Agreement

The context for investors to address climate change

Set during the 21st Conference of the Parties in December 2015, the Paris Agreement is a landmark achievement because it forms a binding agreement between nations to undertake ambitious efforts to combat climate change. Today, 191 parties have joined the Paris Agreement, united in this commitment.[1]

Jun 2020

Network for Greening the Financial System (NGFS) Guide to Climate Scenario Analysis

NGFS publishes a first set of climate scenarios for forward looking climate risks assessment alongside a user guide, and an inquiry into the potential impact of climate change on monetary policy

Sep 2019

EU Final Report on Climate Benchmarks and Benchmarks' Environmental, Social and Governance (ESG) disclosures

Minimum technical requirements for the methodology of both climate benchmarks and recommendations on ESG disclosures, including associated disclosure templates

Feb 2019

Principles for Responsible Investment's (PRI) announces mandatory climate risk reporting

The strategy and governance indicators of the PRI's climate risk indicators are to become mandatory for signatories to report on from 2020

Mar 2018

EU Commission Sustainable Action Plan

Aims to i) shift capital towards sustainability, ii) manage financial risks stemming from climate change and iii) foster transparency & long-termism

Jul 2017

Final recommendations from the **Financial Stability Board's** (FSB) **Task Force on Climate-related Financial Disclosure** (TCFD)

Outlines a standardised framework for voluntary disclosures on climate risks, including for financial institutions

Jan 2016

California Department of Insurance
Thermal coal divestment and fossil fuel disclosure requests

Calls insurance companies to voluntarily divest from thermal coal and provide information on any fossil fuel related investments

Dec 2015

UN Climate Change Conference (COP21)
Paris

Aims to keep global warming below 2°C and to pursue efforts to limit it to 1.5°C

May 2015

Mandatory reporting in France
first reports due by July 2017

Requires institutional investors to disclose integration of ESG and climate change-related risks

Source: MSCI and HSBC Asset Management, 2021

1. Source: United Nations, 2021

What is the Paris Agreement?

1. The Paris Agreement is an international accord aimed at limiting global warming to well below 2°C, but preferably to 1.5°C, compared to pre-industrial levels by 2100. This requires the world to be carbon neutral by 2050.
2. Countries aim to reach this temperature goal by ensuring global greenhouse gas emissions peak as soon as possible to achieve a climate neutral world by mid-century.

Why does it matter for investors?

1. Governments are implementing policy frameworks to support the alignment of economic activities with the Paris Agreement from a national context.
2. Financial institutions are working towards their activities being Paris-aligned, recognising investor demand for them to contribute.
3. Investors are becoming increasingly aware of the threat climate change poses to their long-term objectives, and endeavour to help limit global warming in line with the Paris Agreement by ensuring portfolios achieve net zero emissions by 2050.
4. HSBC Asset Management is an investor member of the Institutional Investors Group on Climate Change, advocating an investment strategy led approach. This, with concrete portfolio and asset level targets, combined with engagement and advocacy activity, will help maximise investor impact in driving real-world decarbonisation.

Why it matters

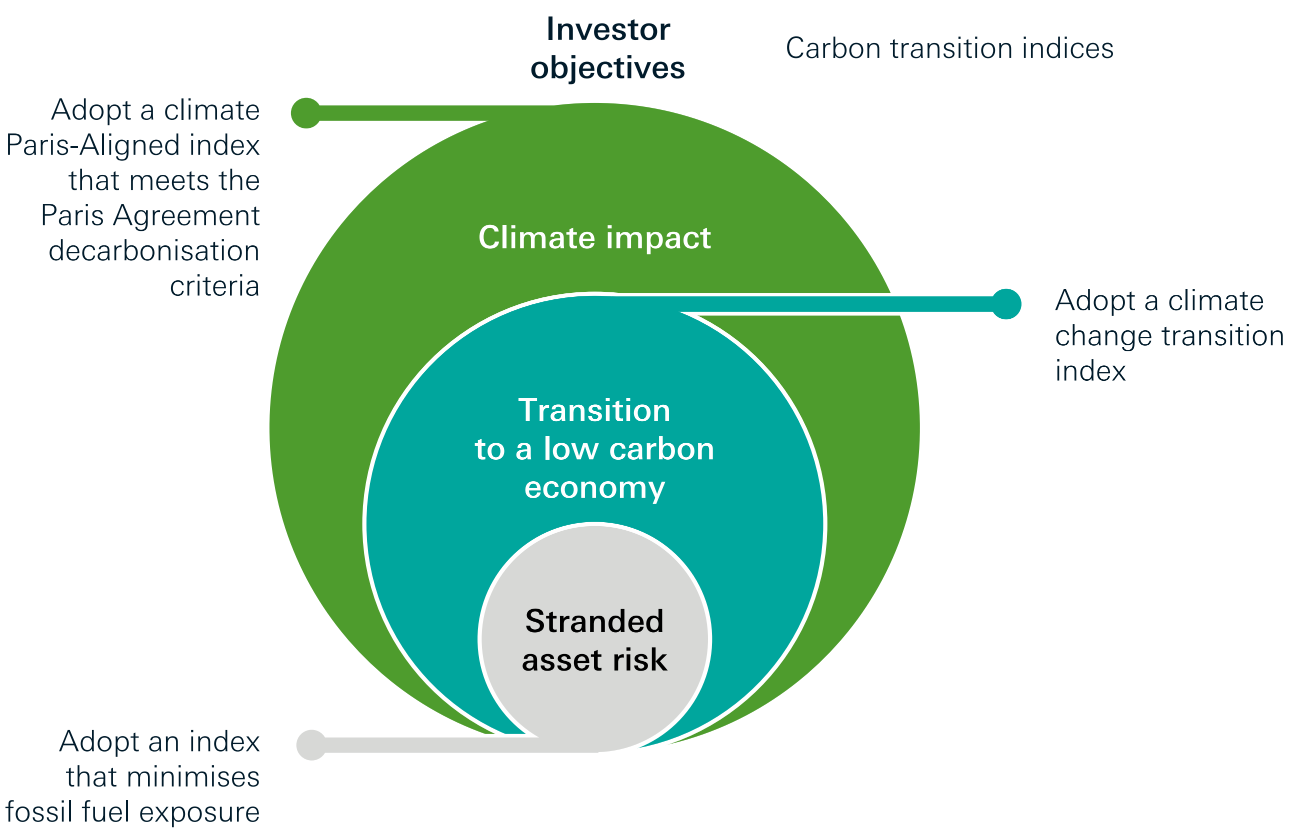
Climate-related risks, whether physical or related to transition to a lower carbon economy, are changing the risk-return profile of individual companies and entire industries, leading to new and increased risks in investors' portfolios.

Companies in carbon-intensive sectors are increasingly facing challenges due to lower demand for fossil fuels or their carbon-intensive products. Extreme weather events are also damaging companies' assets and operations in high-risk regions, and the number of those regions is growing.

In July 2020, the EU Commission proposed regulations to set minimum standards that indices must meet to be labelled as EU Climate Transition Benchmarks (CTB) and EU Paris-Aligned Benchmarks (PAB).

Climate indices are fast becoming a benchmark for active managers and a core building block for climate aware asset allocation strategies.

The concept of a climate index has now evolved beyond solely addressing stranded-asset risk to become an efficient and comprehensive investment benchmark reducing climate risk and reweighting portfolios in favour of companies whose activities or operations support climate transition and have a positive impact on the environment.



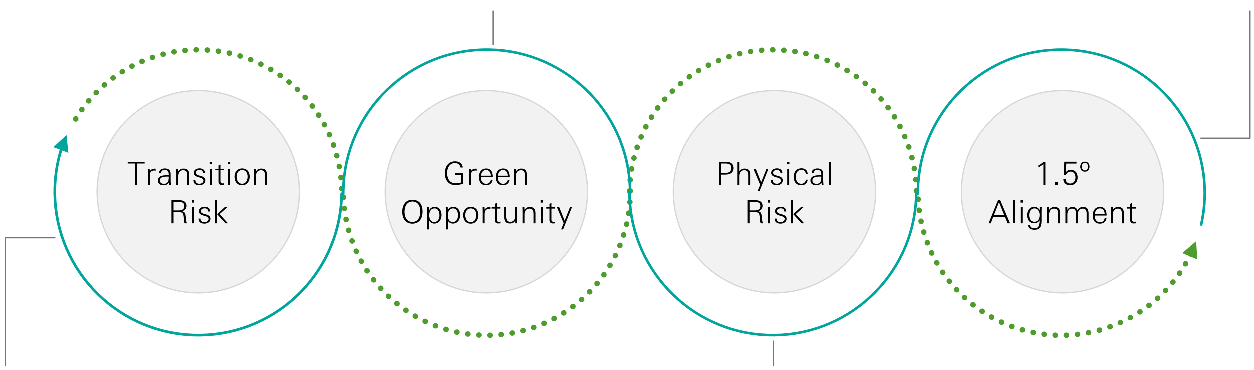
Source: HSBC Asset Management, MSCI, 2021

The MSCI Climate Paris Aligned Indices

Encoding the Paris Agreement into investor portfolios

The MSCI Climate Paris Aligned Indices provide a means of ensuring investors encourage companies to align their environmental strategies with the Paris Agreement.
The indices follow a rules-based methodology designed to facilitate a 1.5°C climate scenario whilst helping investors mitigate transition risk and benefit from transition opportunities.

The index methodology achieves this by incorporating the TCFD recommendations, leveraging advanced climate analytics which identify and manage transition and physical risk, and identifying green opportunities. The indices are designed to exceed the minimum standards of the EU Paris Aligned Benchmark, giving investors confidence they are going the extra mile.



Transition Risk

- An index with a reduced Carbon Intensity profile defined as the index's scope 1, 2 and 3 emissions per million dollar of sales
- Companies in the index are incentivised to set concrete decarbonisation targets
- Companies facing transition risk on their decarbonisation journey have a lower weight in the index
- Neutral exposure to high impact (the most carbon intensive) sectors to prevent under exposure to sectors that have most potential to decarbonise

Green Opportunity

- Weighted average green revenue[1] should be higher than that of the parent index
- The ratio of green to brown revenue[2] should be higher than that of the parent
- Companies providing solutions are held as an overweight

Physical Risk

- Physical Risk Climate Value-at-Risk (Climate VaR)[3] should be 50% lower than that of the parent benchmark, ensuring that the impact and financial risk relating to severe weather hazards is significantly lower

1.5° Alignment

- Self-decarbonisation at 10% ensures the Paris Agreement requirement of 7% year-on-year reduction in Green House Gases is met
- Climate VaR under 1.5°C scenario at neutral (0) or better than that of the parent ensures forward looking climate risk is minimised and opportunity is maximised

Source: HSBC Asset Management, MSCI, 2021

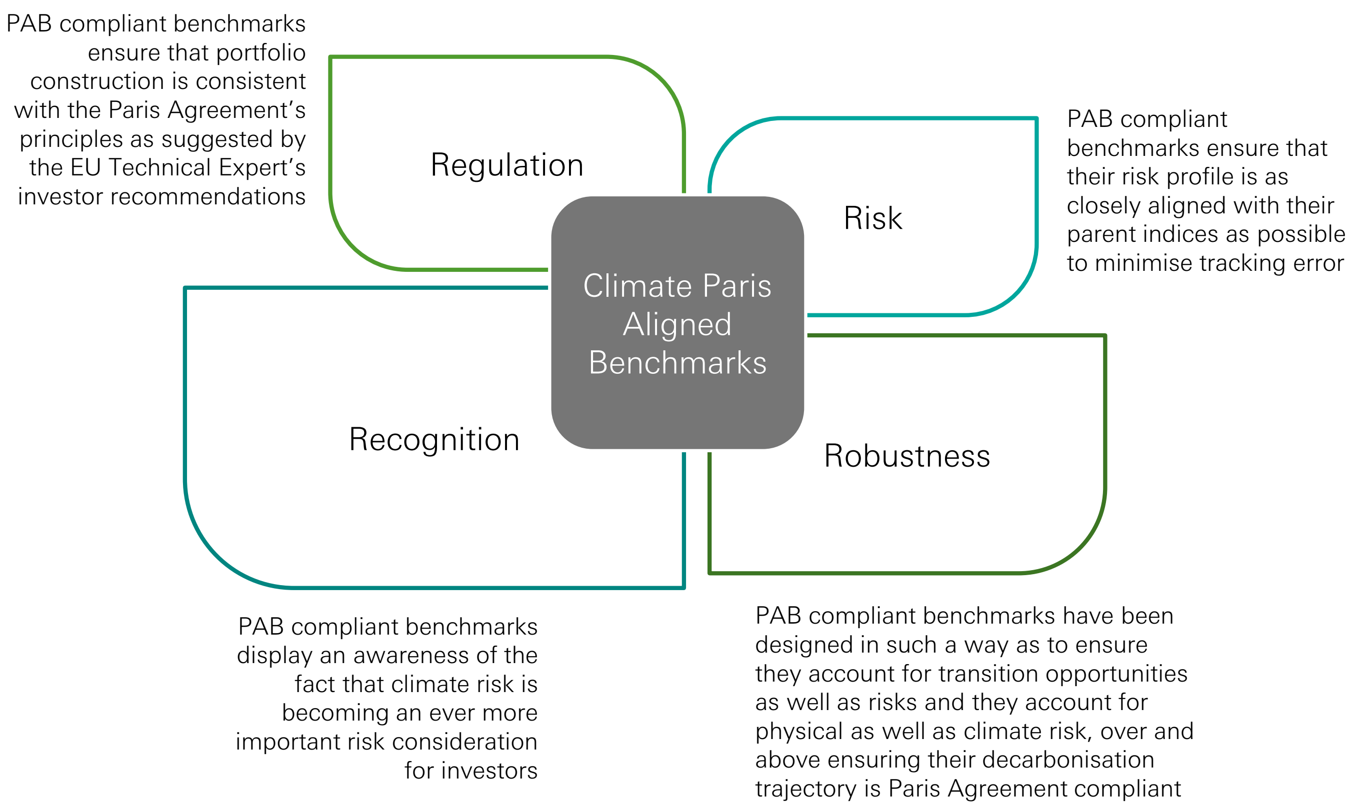
1. Green revenue is defined as revenue from goods and services including alternative energy, energy efficiency, green building, pollution prevention and sustainable water.
2. Brown revenue is defined as the revenue generated from thermal coal extraction, unconventional and conventional oil and gas extraction, oil refining, thermal coal based power generation, liquid fuel based power generation or natural gas based power generation.
3. Climate Value-at-Risk (Climate VaR) is designed to provide a forward-looking and return-based valuation assessment to measure climate related risks and opportunities in an investment portfolio. The fully quantitative model offers deep insights into how climate change could affect company valuations.

Benchmark selection

Choosing the right climate benchmark requires some consideration

1. Is the investor looking to reduce investment risk related to climate change, incentivise decarbonisation or both?
2. Does the investor have net zero investment considerations to account for?
3. Does the investor want to be Paris Agreement complaint and 1.5º aligned?
4. Does the investor have other sustainability considerations beyond carbon?
5. Does the investor want a carbon aware benchmark that meets minimum regulatory disclosure standards?
6. Does the investor want a benchmark that is aware of opportunity as well as risk?

Climate Paris Aligned Benchmarks are becoming more important to investors that have environmental considerations embedded within their asset allocation, and the MSCI Climate Paris Aligned indices ensure that these questions are answered.



Source: HSBC Asset Management

Sample use case

Pension fund builds de-carbonisation targets into its portfolio by switching benchmark from the standard MSCI World Index benchmark to the MSCI World Climate Paris Aligned Index

Which are the options in terms of climate benchmarks?

- The pension fund's objective is to improve its carbon credentials by choosing a climate aware benchmark with built in de-carbonisation targets. Climate benchmarks can vary in terms de-carbonisation trajectory with Paris Alignment and Net Zero being possible alignment criteria

Which solution did the pension fund opt for?

- The pension fund opted for a Climate Paris Aligned benchmark to ensure strict de-carbonisation criteria were built into its investment process

Benefits of the benchmark change after the introduction of Low Carbon Benchmark Regulation[1] in 2020

- The pension fund switched the entire allocation in its passively-managed listed global equities fund according to its new benchmark, the MSCI World Climate Paris Aligned Index
- The MSCI World Climate Paris Aligned Index optimally re-weights securities using a combination of SRI screening, Climate VaR considerations, and the MSCI Low Carbon Transition (LCT) score and category to ensure a Paris Agreement compliant de-carbonisation trajectory is built into the benchmark
- The investor's portfolio construction process changed to ensure it was 'climate aware' and that the carbon credentials of the portfolio were constrained to be within a certain tolerance of the benchmark guaranteeing Paris Alignment

A portfolio with better climate credentials

- The change in benchmark ensured the portfolio had far better carbon credentials in line with the new MSCI World Climate Paris Aligned benchmark as compared to its parent index below

	MSCI World Climate PAB Index	MSCI World Index	Change (%)
Carbon Emissions Intensity	105	293	-64%
Green Revenue Exposure	12.3%	5.7%	+116%
Physical Risk Climate VaR	-3.2%	-5.2%	+38%

MSCI Climate VaR
Climate Value-at-Risk provides a forward-looking and return-based valuation assessment to measure climate related risks and opportunities within in a portfolio.

MSCI Low Carbon Transition Score
The score is based on a multi-dimensional risks and opportunities assessment and considers both predominant and secondary climate transition risks a company faces.

Source: HSBC Asset Management, MSCI, as at 31 October 2021

1. On 17 July 2020, the European Commission adopted new rules setting out minimum technical requirements for the methodology of EU climate benchmarks. The delegated acts were published in the Official Journal of the European Union on 3 December 2020 and entered into application on 23 December 2020.

The HSBC MSCI Climate Paris Aligned UCITS ETFs

Aligned with the world's efforts to reverse climate change

As the World's Best Bank for Sustainable Finance[1], we combine our responsible investment and ETF expertise to provide a range of sustainable ETFs.

Our Climate Paris Aligned UCITS ETFs offer a cost-effective means to access extensive company coverage across different exposures. This is done whilst seeking to reduce investment exposure to transition and physical climate risks.

The funds have a clear sustainable investment objective, aiming to replicate the performance of their respective MSCI Climate Paris Aligned Index, designated as a reference benchmark under Article 9 of the Sustainable Finance Disclosure Regulation (SFDR).

	HSBC MSCI World Climate Paris Aligned UCITS ETF	HSBC MSCI USA Climate Paris Aligned UCITS ETF	HSBC MSCI Europe Climate Paris Aligned UCITS ETF	HSBC MSCI Japan Climate Paris Aligned UCITS ETF
Benchmark	MSCI World Climate Paris Aligned Net USD Index (MXWOCLPA)	MSCI USA Climate Paris Aligned Net USD Index (MXUSCLPA)	MSCI Europe Climate Paris Aligned Net EUR Index (MXERCLNE)	MSCI Japan Climate Paris Aligned Net EUR Index (MXJPCLPA)
Registrations	AT, CH, DE, DK, ES, FI, FR, HK, IE, IT, LU, NL, PT, SE, SG, UK	AT, CH, DE, DK, ES, FI, FR, HK, IE, IT, LU, NL, PT, SE, SG, UK	AT, CH, DE, DK, ES, FI, FR, HK, IE, IT, LU, NL, PT, SE, SG, UK	AT, CH, DE, DK, ES, FI, FR, HK, IE, IT, LU, NL, PT, SE, SG, UK
Total expense ratio	0.18%	0.12%	0.15%	0.18%
Listings / Ticker	LSE: HPAW LN (USD) HPAO LN (GBP) Euronext: HPAW FP (EUR) SIX: HPAW SW (USD) BI: HPAW IM (EUR) Xetra: HPAW GY (EUR)	LSE: HPAU LN (USD) HPAS LN (GBP) Euronext: HPAU FP (EUR) SIX: HPAU SW (USD) BI: HPAU IM (EUR) Xetra: HPAU GY (EUR)	LSE: HPAE LN (GBP) Euronext: HPAE FP (EUR) SIX: HPAE SW (EUR) BI: HPAE IM (EUR) Xetra: HPAE GY (EUR)	LSE: HPJP LN (USD) HPJS LN (GBP) Euronext: HPJP FP (EUR) SIX: HPJP SW (USD) BI: HPJP IM (EUR) Xetra: HJAP GY (EUR)
ISIN	IE00BP2C1V62	IE00BP2C1S34	IE00BP2C0316	IE000UU299V4
Base currency	USD	USD	EUR	USD
Fund domicile	Ireland	Ireland	Ireland	Ireland
Replication methodology	Physical full replication	Physical full replication	Physical full replication	Physical full replication
Dividend distribution	Accumulating	Accumulating	Accumulating	Accumulating

1. Source: Euromoney 2020 'World's Best Bank for Sustainable Finance'

For more information, please contact us:

etfsales@hsbc.com https://www.etf.hsbc.com

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.

- **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
- **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")
- **Interest Rate Risk:** When interest rates rise, bond values generally fall. This risk is generally greater the longer the maturity of a bond investment and the higher its credit quality
- **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

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