



## **HSBC Real Economy Green Investment Opportunity GEM Bond Fund (REGIO).**

The Portfolio Manager reviews all SFDR mandatory Principal Adverse Impacts (PAIs) to assess the relevance to the Fund. HSBC's Responsible Investment Policy sets out the approach taken to identify and respond to principal adverse sustainability impacts and how HSBC considers ESG sustainability risks as these can adversely impact the securities the Funds invest in. HSBC uses third party screening providers to identify companies and governments with a poor track record in managing ESG risks and, where potential material risks are identified. Sustainability impacts, including the relevant PAIs, identified by screening are a key consideration in the investment decision making process and, in turn, this also supports the advice given to clients.

For the REGIO Fund, quantitative data is gathered and reported on a monthly basis for the following principle adverse indicators (along with that for a selected benchmark for comparative purposes):

- PAI 1. GHG emissions expressed in CO<sub>2</sub>e using Scope 1+2 Carbon Emissions
- PAI 3. GHG intensity of investee companies expressed in CO<sub>2</sub>e/US\$M revenue using Scope 1+2 Carbon Emissions
- PAI 4. Exposure to companies active in the fossil fuel sector
- PAI 10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises
- PAI 14. Exposure to controversial weapons (antipersonnel mines, cluster munitions, chemical weapons and biological weapons)

In addition to this monthly monitoring, broader PAIs are considered through qualitative analysis during the investment due diligence through the sustainability assessment procedure and then reviewed on a periodic basis. Environmental and social issues that are considered in addition to those linked to PAIs 1, 3, 4, 10 and 14 include water (maps to PAI 8), land use and biodiversity (maps to PAIs 7, 8 and 9) and a variety of social issues such as human rights, labour management and affected communities. Where we identify significant principal adverse impacts to sustainability factors and inadequate management of these risks by investees, we may choose not to invest in the companies, reduce or exist our holdings in the companies and/or engage with the companies on these issues.

### **The Fund will promote the following environmental and social characteristics:**

The Fund aims to provide attractive risk adjusted returns by investing in a diversified portfolio primarily comprised of Eligible Green Bonds and Other Bonds, principally issued by corporate issuers, on a buy-and-maintain basis.

During the Investment Period, the Fund will invest in Eligible Green Bonds and Other Bonds. Although the Portfolio Manager will seek to invest in Eligible Green Bonds from the launch of the Fund, it is expected that, initially, the Fund will predominantly invest in Other Bonds. Over time, the Portfolio Manager will seek to sell Other Bonds from the Portfolio in order to fund the acquisition of Eligible Green Bonds, with a view to transition to a Portfolio fully invested in Eligible Green Bonds by the end of the Investment Period. Eligible Green Bonds will also be acquired by the Fund using interest income received and the proceeds received on the maturity of Other Bonds.

Following the Investment Period, the Fund will enter the Run-Off Period, during which the Fund will seek to distribute interest income received and repayment of principal in respect of Eligible Green Bonds and Other Bonds (if any) held in the Portfolio, and net proceeds arising on the maturity of Investments from the Portfolio, net in each case of deductions or provisions required.

### Investment Strategy and Proportion of Investments:

During the Investment Period, the Fund will invest in Eligible Green Bonds and Other Bonds. Although the Portfolio Manager will seek to invest in Eligible Green Bonds from the launch of the Fund, it is expected that, initially, the Fund will predominantly invest in Other Bonds. Over time, the Portfolio Manager will seek to sell Other Bonds from the Portfolio in order to fund the acquisition of Eligible Green Bonds, with a view to transition to a Portfolio fully invested in Eligible Green Bonds by the end of the Investment Period. Eligible Green Bonds will also be acquired by the Fund using interest income received and the proceeds received on the maturity of Other Bonds.

As at 30 September 2022, the Fund's AUM was \$435.1M with 48.13% of this invested in 25 eligible green bonds which represented a market value of \$209.4M. The REGIO Fund has the target of 100% of NAV (excluding cash and derivatives) to be invested in eligible green bonds by the end of the Investment Period (seven years from the Initial Funding Date 27 May 2020) and the target of 50% of NAV to be invested in eligible green bonds by the fourth anniversary of the initial funding date. Taking into account non-eligible green bonds in the Fund which we have classified at the firm level as sustainable investments under the SFDR, the sustainable investment percentage of the Fund was 69.22%. The Fund is therefore ahead of schedule with regards to its eligible green bond investment target.

This Fund does not have the objective to align environmental objectives with the EU Taxonomy. As such we do not calculate the alignment of the use of proceeds of eligible green bonds with the EU Taxonomy.

### Methodologies:

Although the Portfolio Manager will seek to invest in Eligible Green Bonds from the launch of the Fund, it is expected that, initially, the Fund will predominantly invest in Other Bonds. Over time, the Portfolio Manager will seek to sell Other Bonds from the Portfolio in order to fund the acquisition of Eligible Green Bonds, with a view to transition to a Portfolio fully invested in Eligible Green Bonds by the end of the Investment Period. Eligible Green Bonds will also be acquired by the Fund using interest income received and the proceeds received on the maturity of Other Bonds.

HSBC uses its own proprietary systematic investment process to measure how the environmental characteristics promoted by the sub-fund are met. HSBC will use data provided by a number of third parties. All data used will be verified by HSBC Asset Management's extensive research department.