

Asset Management

28 March 2023

We are writing to provide you with notice that we are intending to commence securities lending activities on additional funds that are part of our open-ended investment company (OEIC) range. The additional funds that we will consider for securities lending are the Developed World Sustainable Equity Index Fund and the USA Sustainable Equity Index Fund (the “funds”). Securities lending may be undertaken on these funds from 15 May 2023 onwards. The relevant Prospectus for the funds includes full details of our approach to securities lending and the risks involved. This letter provides a summary of the key points.

What is securities lending?

Securities lending is where securities (equities, bonds and other relevant assets) held by the funds are temporarily transferred to another party (the ‘counterparty’), who in turn pays a fee for borrowing the securities. The fee received (less charges and expenses) is paid into the relevant fund (please see further below).

The counterparty must pass back to the funds any dividends or interest it receives while borrowing the securities. And the counterparty must return securities that are equivalent to the securities it has borrowed at an agreed future date or sooner if requested by us.

When borrowing securities, the counterparty must provide collateral to the funds as security against its borrowing. As required under the relevant rules of the Financial Conduct Authority, the collateral can be in the form of cash or other acceptable assets and must be in excess of the value of the securities that have been borrowed.

HSBC Bank plc has been appointed as the securities lending agent to facilitate the lending of securities to counterparties.

HSBC Global Asset Management (UK) Limited
Forum One, Parkway, Whiteley, Fareham PO15 7PA
Web: www.assetmanagement.hsbc.co.uk

Registered office: 8 Canada Square, Canary Wharf, London, E14 5HQ
Registered number: 01917956
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Why are we commencing securities lending?

As the fee received from borrowers (less charges and expenses) is paid back into the relevant fund as accrued income, this has the effect of enhancing the overall performance of the fund. Securities lending therefore has the potential to be beneficial for investors. The performance contribution from securities lending will vary by fund as it is in part dependent on demand from borrowers for the securities held by the fund. There is no guarantee that the funds will lend securities.

What are the risks involved?

The key risk is that a counterparty may fail to return some or all of the securities it has borrowed. HSBC Bank plc, as securities lending agent, indemnifies the funds against such a default, which means that it will aim to provide equivalent securities back to a fund. However, there is a risk that the securities lending agent may not be able to obtain and deliver to the fund some or all of the applicable securities and in that event the securities lending agent will instead provide the fund with a sum of money representing the value of the securities that could not be delivered back to the fund.

Additionally, if a counterparty fails to return some or all of the securities it has borrowed, then it will forfeit the collateral it has provided. However, if the collateral is in the form of assets other than cash, there is a risk that when the assets are sold they may not realise sufficient cash to settle the counterparty's debt to the fund or to purchase replacement securities.

Collateral arrangements may be subject to a number of operational risks, including the failure of the relevant fund to call for collateral where it is entitled to do so and settlement failures.

The risks described above may result in losses for investors. The full risks are described in the relevant Prospectus.

Is there a limit on the value of securities that may be lent?

Each fund may lend securities that represent up to 29% of its value. We generally expect this not to exceed 25%, however this is only an estimate and the actual proportion of a fund's securities subject to lending may be higher (up to the 29% maximum stated) or lower.

Who are the counterparties?

The funds will only lend securities to borrowers that comply with the Financial Conduct Authority's rules on approved counterparties and meet the criteria we specify. This includes consideration of factors including but not limited to legal status, country of origin and credit quality. This means the funds will only lend to established financial institutions with a sufficient credit quality that are specialised in such transactions.

What proportion of the counterparty fees are paid to the funds?

Funds that enter into securities lending will be entitled to receive at least 75% of the gross fees received from borrowing counterparties.

Of the remainder, the securities lending agent is entitled to retain 15% of the gross fees received from counterparties to pay for the provision of its services and we are entitled to receive up to 10% of the gross fees received to pay for the oversight services we provide. More specifically, we will provide services to ensure oversight and monitoring of securities lending activities, which we anticipate will consider the eligibility of borrowers, the limits specified in the agreement with the securities lending agent, the management and reinvestment of collateral, the value of funds on loan and the reporting of securities lending transactions.



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What types of collateral will be accepted?

Collateral may be in the form of cash or other assets that are highly liquid (liquidity being a measure of how easily investments can be traded), are traded on regulated markets and are of sufficient credit quality. This may, for example, include equities and government bonds that meet these criteria.

Collateral will be sufficiently diversified in terms of country, markets and issuers and must be issued by an entity that is independent from the counterparty.

As each of the funds aims to track the performance of an index that has sustainable investment characteristics, the collateral that will be accepted must also meet our environmental, social and governance (ESG) criteria. Further information on the types of collateral that will be accepted can be found in our securities lending brochure on our website, or by contacting us.

Collateral received as cash may only be placed on deposit with an approved bank or invested in money market funds, where this is not restricted for a particular fund.

Do I need to take any action?

You do not need to take any action. However, if you are unsure whether the funds continue to meet your needs you should contact a financial adviser.

Further questions

If you have any questions, please email our Fund Servicing Centre at HSBCenquiries@ntrs.com. Alternatively, you can call us on 0800 358 3011. Lines are open 9.00 am to 5.00 pm Monday to Friday (excluding public holidays). To help us to continually improve our service and in the interest of security, we may monitor and/or record your communications with us.

Yours sincerely



Jeff Webb
Senior Product Manager
HSBC Global Asset Management (UK) Limited



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