

Pre-contractual disclosure for the financial products referred to in Article 8, paragraphs 1, 2 and

Sustainable investment means an investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices.

The EU Taxonomy is a classification system laid down in Regulation (EU) 2020/852, establishing a list of environmentally sustainable economic activities. That Regulation does not include a list of socially sustainable economic activities. Sustainable investments with an environmental objective might be aligned with the Taxonomy or not

**Does this financial product have a sustainable investment objective?**



Yes

- It will make a minimum of sustainable investments with an environmental objective:\_%**
  - in economic activities that qualify as environmentally sustainable under the EU Taxonomy
  - in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy
- It promotes Environmental/Social (E/S) characteristics**
  - and while it does not have as its objective a sustainable investment, it will have a minimum proportion of 15.00% of sustainable investments
    - with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy
    - with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy
    - with a social objective
  - It promotes E/S characteristics, but will not make any sustainable investments
- It will make a minimum of sustainable investments with a social objective:\_%**



2a, of Regulation (EU) 2019/2088 and Article 6, first paragraph, of Regulation (EU) 2020/852).

## Environmental and/or social characteristics

### What environmental and/or social characteristics are promoted by this financial product?

In replicating the performance of the MSCI AC Asia Pacific ex Japan Climate Paris Aligned Index (the "Index"), the Fund promotes the following environmental and/or social characteristics:

- seeking to reduce exposure to transition and physical climate risks and pursuing opportunities arising from the transition to a lower-carbon economy while aligning with the Paris Agreement requirements;
- incorporating the Task Force on Climate-related Financial Disclosures recommendations; and
- exceeding the minimum standards of the EU Paris-Aligned Benchmark.

The Fund seeks to achieve the promotion of these characteristics by replicating the performance of the Index which removes companies based on sustainability exclusionary criteria and United Nations Global Compact exclusionary criteria and which weights companies in order to improve the exposure to companies with favourable ESG ratings.

The Index qualifies as an EU Paris-Aligned Benchmark under Title III, Chapter 3a, of Regulation (EU) 2016/1011 and has been designated as a reference benchmark for the purpose of attaining the environmental or social characteristics promoted by the Fund.

## Sustainability indicators

measure how the environmental or social characteristics promoted by the financial product are attained.

- **What sustainability indicators are used to measure the attainment of each of the environmental or social characteristics promoted by this financial product?**

The sustainability indicator is the HSBC Asset Management's proprietary ESG ratings system which is used to measure the attainment of the ESG characteristics promoted by the Index and therefore that of the Fund, specifically measuring:

- ESG score, relative to the MSCI AC Asia Pacific ex-Japan Index ("Parent Index")
- Carbon emissions, relative to the Parent Index (as measured as Carbon Intensity)

- **What are the objectives of the sustainable investments that the financial product partially intends to make and how does the sustainable investment contribute to such objectives?**

The sustainable investments made by the Fund are aligned to the environmental and/or social characteristics which it promotes, as set out in this annex.

The Fund replicates the performance of the Index, the focus of which is seek to reduce exposure to transition and physical climate risks and pursuing opportunities arising from the transition to a lower-carbon economy while aligning with the Paris Agreement requirements; incorporate the Task Force on Climate-related Financial Disclosures recommendations; and exceed the minimum standards of the EU Paris-Aligned Benchmark.

By replicating the performance of the Index, the investments of the Fund contribute to these sustainable objectives.

- **How do the sustainable investments that the financial product partially intends to make, not cause significant harm to any environmental or social sustainable investment objective?**

Do no significant harm analysis is completed by the Index provider as part of the Index construction.

The Index is re-balanced periodically; prior to the re-balance of the Index the indicators referred to below are incorporated in the assessment of the business activities.

By replicating the performance of the Index, the investments of the Fund do not cause significant harm to the environmental and/or social investment sustainable objective.

Investment restrictions monitoring is an HSBC overlay process that screens for any investments that would cause significant harm to the objectives and which could result in divestment by the Investment Manager ahead of the index re-balancing.

### **How have the indicators for adverse impacts on sustainability factors been taken into account?**

The mandatory principal adverse impacts ("PAI") indicators have been used in the assessment of business activities of the initial universe of securities. Revenue data, business involvement and other data sources have been considered when assessing each security using minimum thresholds or blanket exclusions on activities identified in relation to these indicators.

The eligible universe is constructed once Thermal coal mining and generation, Oil & Gas, are screened at a minimum threshold level and controversial weapons (PAI 14) are removed. Securities that have faced very severe and severe controversies pertaining to Environmental issues are also removed (PAI 7,8,9). Embedded in the ESG controversy

## Principal adverse impacts

are the most significant negative impacts of investment decisions on sustainability factors relating to environmental, social and employee matters, respect for human rights, anti- corruption and anti- bribery matters.

score is an evaluation of UN Declaration of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, and the UN Global Compact which removes securities having faced very severe controversies (PAI 10). The resulting eligible universe is then used to construct the Index using a sophisticated optimisation approach that reduces exposure to carbon intensity (PAI 1,2), reduces

fossil fuel exposure (PAI 2,4) and increases exposure to securities with credible emission reduction targets (PAI 1,2,3,4,5). The optimisation also applies overweighting of companies providing sustainable/green solutions (PAI 7,8,9) and those providing green revenues.

No optional indicators are taken into account.

Furthermore active ownership, through engagement and global proxy voting, is a key pillar of our approach to responsible investments. Our stewardship activity is focused on protecting and enhancing our clients' investments with us. We engage with companies on a range of ESG issues and we have the following clear set of engagement objectives:

- Improve our understanding of company business and strategy
- Monitor company performance
- Signal support or raise concerns about company management, performance or direction
- Promote good practice

Engagement issues range from corporate governance concerns such as the protection of minority shareholder rights, director elections and board structure to environmental issues, including climate change adaptation and mitigation and the low-carbon energy transition, to social issues including human capital management, inequality and data privacy.

We have a dedicated stewardship team with engagement specialists. Engagement is also integral to the fundamental research process. Our analysts and portfolio managers engage with issuers as part of the investment process and cover relevant ESG issues in their research and discussions.

We are fully transparent in our reporting of our engagement and voting activity, publishing our voting on a quarterly basis and summary information about our engagement activity annually.

### **How are the sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights?**

The index methodology incorporates the MSCI ESG Controversies. The evaluation framework used in MSCI ESG Controversies is designed to be consistent with international norms represented by the UN Declaration of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, and the UNGC Principles. Specifically, the MSCI ESG Controversies approach covers the following pillars: Environment, Human Rights & Community, Labor rights & Supply chain, Customers and Governance. These pillars include indicators such as Human rights concerns, Collective bargaining & unions, Child labor and Anticompetitive practices, which are also issues that the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles

on Business and Human Rights cover. Further information on MSCI ESG Controversies is available on the Index provider's website.

The EU Taxonomy sets out a “do not significant harm” principle by which Taxonomy-aligned investments should not significantly harm EU Taxonomy objectives and is accompanied by specific EU criteria.

The “do no significant harm” principle applies only to those investments underlying the financial product that take into account the EU criteria for environmentally sustainable economic activities. The investments underlying the remaining portion of this financial product do not take into account the EU criteria for environmentally sustainable economic activities.

Any other sustainable investments must also not significantly harm any environmental or social objectives.



**☑ Does this financial product consider principal adverse impacts on sustainability factors?**

Yes, the Index is designed to meet and exceed the minimum standards of the EU Paris Aligned Benchmarks regulation. The eligible universe is constructed once Thermal coal mining and generation, Oil & Gas, are screened at a minimum threshold level and controversial weapons (PAI 14) are removed. Securities that have faced very severe and severe controversies pertaining to Environmental issues are also removed (PAI 7,8,9). Embedded in the ESG controversy score is an evaluation of UN Declaration of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, and the UN Global Compact which removes securities having faced very severe controversies (PAI 10). The resulting eligible universe is then used to construct the Index using a sophisticated optimisation approach that reduces exposure to carbon intensity (PAI 1,2), reduces fossil fuel exposure (PAI 2,4) and increases exposure to securities with credible emission reduction targets (PAI 1,2,3,4,5). The optimisation also applies overweighting of companies providing sustainable/green solutions (PAI 7,8,9) and those providing green revenues.

Furthermore, active ownership, through engagement and global proxy voting, is a key pillar of our approach to responsible investments. Our stewardship activity is focused on protecting and enhancing our clients’ investments with us. We engage with companies on a range of ESG issues and we have the following clear set of engagement objectives:

- Improve our understanding of company business and strategy
- Monitor company performance
- Signal support or raise concerns about company management, performance or direction
- Promote good practice

Engagement issues range from corporate governance concerns such as the protection of minority shareholder rights, director elections and board structure to environmental issues, including climate change adaptation and mitigation and the low-carbon energy transition, to social issues including human capital management, inequality and data privacy.

We have a dedicated stewardship team with engagement specialists. Engagement is also integral to the fundamental research process. Our analysts and portfolio managers engage with issuers as part of the investment process and cover relevant ESG issues in their research and discussions.

We are fully transparent in our reporting of our engagement and voting activity, publishing our voting on a quarterly basis and summary information about our engagement activity annually.

How PAI indicators were considered will be included in the Fund's year-end report and



accounts.

Further information is available on request.

No



### **What investment strategy does this financial product follow?**

The Fund is passively managed and will aim to replicate the net total return performance of the Index.

The Index is designed to support investors seeking to reduce their exposure to transition and physical climate risks and who wish to pursue opportunities arising from the transition to a lower-carbon economy while aligning with the Paris Agreement requirements. The index incorporates the Task Force on Climate-related Financial Disclosures recommendations and is designed to exceed the minimum standards of the EU Paris-Aligned Benchmark.

The Index achieves this in the following ways:

1. Excluding securities of companies with exposure (as defined by the Index provider in the Index methodology) to any of the following characteristics (each characteristic will apply thresholds, as defined by the Index provider and set out in the Index methodology and which may be amended from time to time).
2. On each rebalancing date, the Index is constructed using an optimisation process (as detailed in the Index methodology) as detailed in the binding elements below.

- **What are the binding elements of the investment strategy used to select the investments to attain each of the environmental or social characteristics promoted by this financial product?**

The binding elements of the investment strategy are as follows:

The Index excludes securities of companies with exposure (as defined by the Index provider in the Index methodology) to:

- controversial weapons;
- ESG controversies;
- tobacco;
- environmental harm;
- thermal coal mining;
- oil and gas; and
- power generation.

Furthermore, the Index incorporates the Task Force on Climate-related Financial Disclosures ("TCFD") recommendations and is designed to exceed the minimum standards of the EU Paris-Aligned Benchmark.

On each rebalancing date, the Index is constructed using an optimisation process (as detailed in the Index methodology) to achieve the following aims:

- exceed the minimum technical requirements laid out in the draft EU Delegate Act ;
- align with the recommendations of the TCFD ;
- align with a 1.5°C climate scenario using the MSCI Climate Value-at-Risk and a "self-decarbonization" rate of 10% year on year;
- reduce the Index's exposure to physical risk arising from extreme weather events by at least 50%;
- shift index weight from "brown" to "green" using the MSCI Low Carbon transition score and by excluding categories of fossil-fuel-linked companies;
- increase the weight of companies which are exposed to climate transition

**The investment strategy** guides investment decisions based on factors such as investment objectives and risk tolerance.

opportunities and reduce the weight of companies which are exposed to climate transition risks;

- reduce the weight of companies assessed as high carbon emitters using scope 1, 2 and 3 emissions;
- increase the weight of companies with credible carbon reduction targets through the weighting scheme; and
- achieve a modest tracking error compared to the Parent Index and low turnover.

- **What is the committed minimum rate to reduce the scope of the investments considered prior to the application of that investment strategy?**

The Fund does not have an committed minimum rate to reduce the scope of investments.

- **What is the policy to assess good governance practices of the investee companies?**

MSCI captures good governance practices through its MSCI ESG Controversies and MSCI ESG Ratings models, both of which are incorporated into the Index's methodology. MSCI ESG Controversies covers "Labor Rights & supply chain" and "Governance", among others, and MSCI ESG Ratings incorporates Corporate Governance, Corporate Behavior and Human Capital.

Further information on MSCI ESG Controversies and MSCI ESG Ratings is available on the Index provider's website.

Governance is assessed against criteria specified in the investment process which includes, among other things, business ethics, culture and values, corporate governance and bribery and corruption. Controversies and reputational risks are assessed through enhanced due diligence as well as screening which are used to identify issuers that are considered to have low governance scores. Those issuers will then be subjected to further review, action and/or engagement.

Good corporate governance has long been incorporated in HSBC's proprietary fundamental company research. HSBC's Stewardship team meets with companies regularly to improve our understanding of their business and strategy, signal support or concerns the Investment Manager has with management actions and promote best practice. HSBC believes that good corporate governance ensures that companies are managed in line with the long-term interests of their investors.

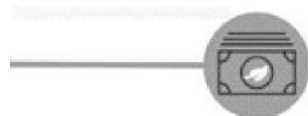
Further information is available on request.

- **What is the asset allocation planned for this financial product?**

In seeking to achieve its investment objective, the Fund will aim to invest in the constituents of the Index in generally the same proportions in which they are included in the Index. Cash and other instruments such as American Depositary Receipts, European Depositary Receipts and Global Depositary Receipts, Eligible Collective Investment Schemes and financial derivative instruments may be used for liquidity, hedging and efficient portfolio management.

#### Good governance

practices include sound management structures, employee relations, remuneration of staff and tax compliance



#### Asset allocation

describes the share of investments in specific assets.

The Fund promotes environmental and/or social characteristics and while it does not have as its objective a sustainable investment, it will have a minimum proportion of 15% of sustainable investments.

Taxonomy-aligned activities are expressed as a share of:

**- turnover**

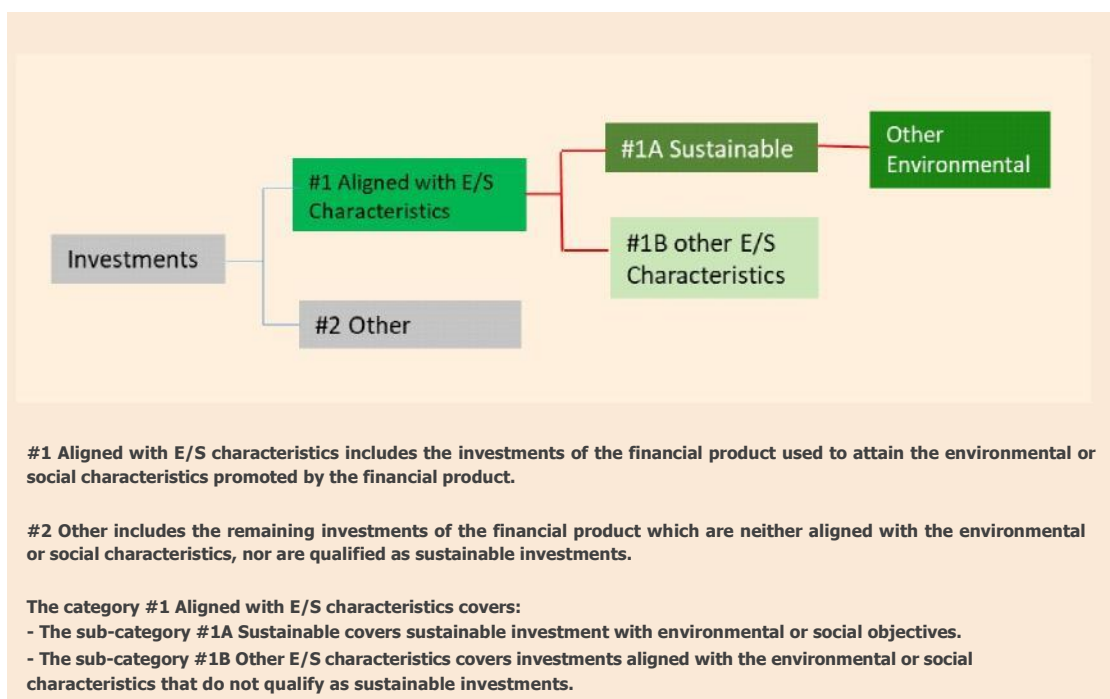
reflecting the share of revenue from green activities of investee companies

**- capital expenditure**

(CapEx) showing the green investments made by investee companies, e.g. for a transition to a green economy.

**- operational expenditure**

(OpEx) reflecting green operational activities of investee companies.



• **How does the use of derivatives attain the environmental or social characteristics promoted by the financial product?**

The sub-fund will not use derivatives to attain the environmental or social characteristics of the sub-fund.



**To what minimum extent are sustainable investments with an environmental objective aligned with the EU Taxonomy?**

N/A. The Fund does not intend to commit to a minimum share of sustainable investments with an environmental objective that are aligned with the EU Taxonomy.

• **Does the financial product invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy ? 1**

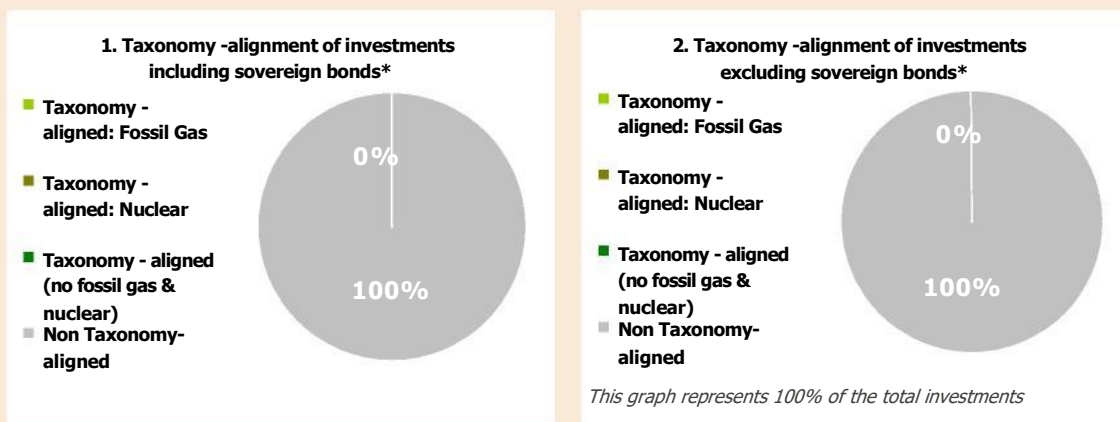
yes in fossil gas In nuclear energy

No

1 Fossil gas and/or nuclear related activities will only comply with the EU Taxonomy where they contribute to limiting climate change ("climate change mitigation") and do not significantly harm any EU Taxonomy objective –see explanatory note in the left hand margin. The full criteria for fossil gas and nuclear energy economic activities that comply with the EU Taxonomy are laid down in Commission Delegated Regulation (EU) 2022/1214.

**Enabling activities** directly enable other activities to make a substantial contribution to an environmental objective.

The two graphs below show in green the minimum percentage of investments that are aligned with the EU Taxonomy. As there is no appropriate methodology to determine the Taxonomy-alignment of sovereign bonds\*, the first graph shows the Taxonomy alignment in relation to all the investments of the financial product including sovereign bonds, while the second graph shows the Taxonomy alignment only in relation to the investments of the financial product other than sovereign bonds.



\* For the purpose of these graphs, 'sovereign bonds' consist of all sovereign exposures.

**Transitional activities** are activities for which low-carbon alternatives are not yet available and among others have greenhouse gas emission levels corresponding to the best performance.

• **What is the minimum share of investments in transitional and enabling activities?**

N/A. The Fund does not have a specific minimum share of transitioning and enabling activities.

 are sustainable investments with an environmental objective that do not take into account the criteria for environmentally sustainable economic activities under the EU Taxonomy.



**What is the minimum share of sustainable investments with an environmental objective that are not aligned with the EU Taxonomy?**

N/A. The Fund does not intend to commit to a minimum share of sustainable investments with an environmental objective that are not aligned with the EU Taxonomy.



**What is the minimum share of socially sustainable investments?**

N/A. The Fund does not intend to commit to a minimum share of socially sustainable investments.



**What investments are included under “#2 Other”, what is their purpose and are there any minimum environmental or social safeguards?**

Cash and other instruments such as American Depositary Receipts, European Depositary Receipts and Global Depositary Receipts, Eligible Collective Investment Schemes and/or financial derivative instruments may be used for liquidity, hedging and efficient portfolio management in respect of which there are no minimum environmental and/or social safeguards.



**Is a specific index designated as a reference benchmark to determine whether this financial product is aligned with the environmental and/or social characteristics that it promotes?**

Yes. The investment objective of the Fund is to replicate the performance of the MSCI AC Asia Pacific ex Japan Climate Paris Aligned Index.

• **How is the reference benchmark continuously aligned with each of the environmental or social characteristics promoted by the financial product?**

The Index is constructed from the Parent Index by excluding securities of companies with values and climate-based exposure (as defined by the Index provider in the Index methodology)

In addition to the application of the exclusionary criteria, the Index incorporates the Task Force on Climate-related Financial Disclosures ("TCFD") recommendations and is designed to exceed the minimum standards of the EU Paris-Aligned Benchmark.

The composition of the Index is rebalanced on a semi-annual basis and carried out according to the published rules governing the management of the Index as set out by MSCI Inc.

• **How is the alignment of the investment strategy with the methodology of the index ensured on a continuous basis?**

In seeking to achieve its investment objective, the Fund will aim to invest in the constituents of the Index in generally the same proportions in which they are included in the Index. The composition of the Index is rebalanced on a semi-annual basis and carried out according to the published rules governing the management of the Index as set out by MSCI Inc.

• **How does the designated index differ from a relevant broad market index?**

The Index is an equity index based on the MSCI AC Asia Pacific ex-Japan Index, and includes companies from certain Developed and Emerging Market countries in the Asia Pacific region (excluding Japan), as determined by the Index provider.

The Index is constructed from the Parent Index by excluding securities of companies with exposure (as defined by the Index provider in the Index methodology) to:

- controversial weapons;
- ESG controversies;
- tobacco;
- environmental harm;
- thermal coal mining;
- oil and gas; and
- power generation.

Furthermore, the Index incorporates the Task Force on Climate-related Financial Disclosures "TCFD" recommendations and is designed to exceed the minimum standards of the EU Paris-Aligned Benchmark.

On each rebalancing date, the Index is constructed using an optimisation process (as detailed in the Index methodology) to achieve the following aims:

- exceed the minimum technical requirements laid out in the draft EU Delegate Act ;

**Reference benchmarks** are indexes to measure whether the financial product attains the environmental or social characteristics that they promote

- align with the recommendations of the TCFD ;
- align with a 1.5°C climate scenario using the MSCI Climate Value-at-Risk and a “self-decarbonization” rate of 10% year on year;
- reduce the Index’s exposure to physical risk arising from extreme weather events by

at least 50%;

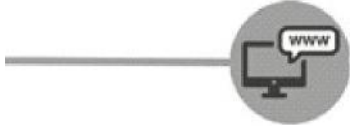
- shift index weight from “brown” to “green” using the MSCI Low Carbon transition score and by excluding categories of fossil-fuel-linked companies;
- increase the weight of companies which are exposed to climate transition opportunities and reduce the weight of companies which are exposed to climate transition risks;
- reduce the weight of companies assessed as high carbon emitters using scope 1, 2 and 3 emissions;
- increase the weight of companies with credible carbon reduction targets through the weighting scheme; and
- achieve a modest tracking error compared to the Parent Index and low turnover.

- **Where can the methodology used for the calculation of the designated index be found?**

<https://www.msci.com/index-methodology> (for fact sheets, Index methodology and other information).

The Index methodology may be amended from time to time by the Index provider. Information on the Index methodology is available on the website above.





**Where can I find more product specific information online?**

More product-specific information on this and all other HSBC ETF funds can be found on the website. Go to: [www.assetmanagement.hsbc.com/investment-expertise/etf](http://www.assetmanagement.hsbc.com/investment-expertise/etf) and select your country/location from the list. Please select 'Funds' from the main navigation page, where you can use the search or filter functions to find your particular fund.