

Questions and Answers

Change to HSBC GIF – Global Equity and HSBC GIF – Japanese Equity (the “Sub-Funds”)

What is the change taking place?

The Sub-Funds were previously managed according to an investment process where stock selection was based on a pre determined model aiming at outperforming a market capitalisation weighted index. They will now be managed in accordance with HSBC’s Economic Scale Indexation strategy, a passive strategy tracking a non-market capitalisation weighted index.

What is the HSBC Economic Scale Indexation strategy?

The HSBC Economic Scale Indexation strategy is an investment strategy which tracks an index that looks to weight companies based on their economic contribution. HSBC’s Economic Scale Indexation strategy (ESI) tracks one of HSBC’s proprietary range of fundamental indices. These indices differ from traditional market capitalisation weighted indices as they weight constituents based on their economic ‘footprint’.

What are the HSBC Economic Scale Indices?

These indices have been developed by HSBC Global Asset Management and were launched in 2012. They are calculated by Euromoney Institutional Investor Plc (Euromoney Indices team), a specialist index calculation unit based in Edinburgh. They are designed to provide investors with a series of indices based on weights which reflect the economic scale or ‘footprint’ of companies and countries using the notion of “Value Added” rather than their respective market capitalisation. Value Added** is the difference between a company’s output (sales) and inputs (purchases of goods and services from other businesses). These indices aim at outperforming market capitalisation weighted indices.

** The Value Added (surplus) is calculated by summing the following disbursements: Net payments to shareholders, net payments to bondholders, gross salaries paid, net taxes paid by the firm and capital consumption (depreciation).

What is the reason for this change?

The investment advisers of the Sub-Funds review all of its products and capabilities regularly to ensure they continue to align with client needs and business objectives. Key criteria include ongoing client demand, assets under management, profitability, sales interest and commitment, and scalability.

Over the last couple of years, we have seen an increasing interest in equity products that offer an alternative to the traditional market capitalisation weighted strategies. As a result, we are offering our clients worldwide the opportunity to gain exposure to equity markets by investing in our ESI products, allowing the Sub-Funds to provide greater transparency and lower execution cost.

How will the change affect your investment?

The Sub-Funds will continue to be invested in Global/Japanese equities but in a different way as stocks will now be weighted based on their economic footprint. As a result, the universe of stocks and the weightings will differ from the current portfolios:

HSBC GIF - Global Equity as at 30th November 2014		HSBC Economic Scale Index World as at 30th November 2014	
Security Name	Weight (%)	Security Name	Weight (%)
Apple	3.5	Walmart	2.3
Amgen	2.0	General Electric	1.2
Verizon Communication	2.0	Exxon Mobil	1.1
AbbVie	1.9	AT&T	1.0
Home Depot	1.9	JPMorgan	0.8
Microsoft	1.9	Wells Far	0.7

Union Pacific Group	1.8	United Parcel	0.6
Commonwealth Bank of Australia	1.7	Bank of America	0.6
Boeing	1.7	Shell	0.6
American Express	1.7	HP	0.6
Number of holdings: 115		Number of holdings: 1628	

HSBC GIF - Japanese Equity as at 30th November 2014		HSBC Economic Scale Index Japan as at 30th November 2014	
Security Name	Weight (%)	Security Name	Weight (%)
Toyota	6.0	Toyota	4.2
Mitsubishi	2.7	NTT	4.2
Softbank	2.2	Panasonic	3.8
Honda	1.6	Hitachi	3.5
Sumitomo Mitsui Financial Group	1.9	Sony	2.6
Canon	1.5	Canon	1.9
Japan Tobacco	1.4	Honda	1.8
KDDI CORP	1.3	Nissan	1.6
Hitachi	1.3	Toshiba	1.6
Mizuho Financial Group	1.3	NTT Docomo	1.5
Number of holdings: 209		Number of holdings: 412	

How is the investment objective changing?

The investment objective of the Sub-Funds will remain focused on long-term capital growth, however this will now be achieved through a passive investment process rather than active stock selection.

How is the performance objective changing?

The change in investment strategy will see a change in performance objective. Funds managed in accordance with the HSBC Economic Scale Index strategy seek to match the performance of the Economic Scale index being tracked.

Is there going to be any change to the investment process?

Yes, currently the Sub-Funds adopt a model approach to select stocks. This, however, will change to an index tracking strategy which aims to track one of the HSBC Economic Scale indices mainly through a replication technique where the portfolio manager aims at holding every stock in the index (where practical). As illustrated above the number of holdings will increase as a result of this replication technique.

How is continuity of fund management being managed - are any members of the team transferring?

As the Sub-Funds are moving to a passive investment approach, they will be managed by a different team (see below) that specialises in indexation fund management. HSBC has been managing passive portfolios since 1988 and manages assets in excess of US Dollars 22 billion as at September 2014 in passive strategies. A working group containing the necessary departments has been set-up to manage the transition of the Sub-Funds. This working group contains members from both the existing and new management teams to ensure that there will be a smooth transition.

Who will be managing the Sub-Funds with the new strategy in place?

The Sub-Funds will be managed by Bijan Seghatchian who is part of the Equity Index and Exchange Traded Fund (ETF) team based in London (7 people) with effect from 17 February 2015. Bijan has been managing the index fund range since 2009 and has been with HSBC since 1995.

When will the transfer take effect?

17th February 2015.

Can shareholders opt out of the transfer?

As an existing Shareholder, due to the changes above you may take the opportunity to switch to any other sub-fund within the HSBC GIF range or fully redeem your investment from your sub-fund(s) free of charge until one business day prior to the Transfer Date. Switches and redemptions will be carried out in accordance with the normal terms disclosed in the Prospectus but without redemption charges and switching fees.

Will there be any costs associated with the transfer charged to shareholders?

Our dealing team has estimated the transition cost in current market conditions (as at October 2014); this includes commission, taxes, and assumes we trade Market on Close:

Fund	Estimated transition costs (%)
HSBC GIF - Global Equity	0.11
HSBC GIF - Japanese Equity	0.13

What are the total fees?

The total fees will change as a result of the lowering of the Management Fee (no change to the Operating, Administrative and Servicing Expenses):

Class of Shares[#]	A	B	E	I	X	J
HSBC GIF Global Equity Management Fee (%) until 16 February 2015	1.50	0.75	2.00	0.75	0.60	0.60
HSBC GIF ESI Global Equity Management Fee (%) from 17 February 2015	0.60	0.30	0.90	0.30	0.30	0.30

[#] The following classes are available to the public in Hong Kong: AD.

Class of Shares[#]	A	B	E	I	X	P
HSBC GIF Japanese Equity Management Fee (%) until 16 February 2015	1.50	0.75	2.00	0.75	0.60	1.00
HSBC GIF ESI Japan Equity Management Fee (%) from 17 February 2015	0.60	0.30	0.90	0.30	0.30	0.40

[#] The following classes are available to the public in Hong Kong: PD.

Who should we contact if we want more information?

Please contact your local distributor for further information.