Pre-contractual disclosure for the financial products referred to in Article 8, paragraphs 1, 2 and 2a, of Regulation (EU) 2019/2088 and Article 6, first paragraph, of Regulation (EU) 2020/852).

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

# Environmental and/or social characteristics

Does this financial product have a sustainable investment objective?

- ☐ Yes
- ☑ No

☐ **It will make a minimum of sustainable investments with an environmental objective:_%**

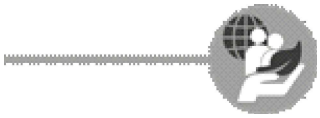
- ☐ in economic activities that qualify as environmentally sustainable under the EU Taxonomy
- ☐ in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy

☐ **It will make a minimum of sustainable investments with a social objective:_%**

☑ **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 5.00% 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



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

In replicating the performance of the MSCI Emerging Markets Value Select Screens Advanced Index (the "Index"), the Fund promotes the following environmental and/or social characteristics:

- Better management of a broad range of environmental and social risks, and where applicable, positioning to meet demand for provision of goods and services that have a positive environmental or social contribution, collectively measured by MSCI ESG ratings. MSCI ESG ratings provide an opinion of companies' management of financially relevant ESG risks and opportunities. Each company is assessed on relevant environmental, social and governance themes, and where applicable, positioning to meet market demand for the provision of products and services that have a positive environmental or social contribution. The themes determined by MSCI are climate change, natural capital, pollution and waste, environmental opportunities, human capital, product liability, stakeholder opposition, social opportunities, corporate governance and corporate behaviour. The Fund will target this through an improvement of the MSCI ESG rating against that of the MSCI Emerging Markets Index (the "Parent Index")

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 improves the exposure to companies with favourable MSCI ESG ratings.

The Index has been designated as a reference benchmark for the purpose of attaining the environmental and/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 below sustainability indicator is used to measure the attainment of the environmental and social characteristics promoted by the Fund, specifically measuring:

- MSCI ESG rating of the Fund, relative the Parent Index, whereby the MSCI ESG rating of the Fund is expected to be higher than that of the Parent Index

- **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 will contribute to one or more of the following environmental and/or social objectives:

- Transition to a lower carbon economy;
- Support research and financing of technology, resources and supply chain improvements relating to climate change mitigation and/or adaptation;
- Support the enhancement of the United Nations Sustainable Development Goals ("UN SDGs"); and
- Adopting the highest level of environmental and social practices, ranging from the approach to climate change mitigation to board gender diversity.

Investments may be considered sustainable if they make a positive contribution to an environment or social objective in accordance with the Investment Manager's sustainable investment policy. A sustainable investment's contribution to these objectives will be determined by meeting one or more of the following criteria:

- Classification as net zero aligned, or better, by the Investment Manager's net zero investment framework;
- Best in class environmental and / or social scores in the investment's respective universe, as determined by the Investment Manager;
- Generation of sustainable revenues, which are those generated from activities that the Investment Manager regards as supporting the enhancement of the UN SDGs, EU Taxonomy objectives or other climate related activities.

Further information can be found in HSBC's Responsible Investing Methodologies document. This is available on: www.assetmanagement.hsbc.com/about-us/responsible-investing, by selecting your location and then choosing Policies and Disclosures.

**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.

- **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?**

The sustainable investments in the Fund will be assessed against the principle of do no significant harm ("DNSH") to ensure they do not significantly harm any environmental or social objective. This includes taking into account principal adverse impacts ("PAIs") as further described below.

In addition, companies earning 50% or more of their revenue from adult entertainment, gambling, alcohol, and those identified as involved in severe controversies by a third-party research provider, will not pass the DNSH principle. The DNSH principle applies only to the investments in the Fund deemed sustainable.

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

The mandatory PAIs, as defined in Table 1 of Annex 1 of Commission Delegated Regulation (EU) 2022/1288, are used to assess whether the sustainable investments of the Fund are significantly harming any relevant environmental or social objective.

To support the DNSH assessment, the Investment Manager has established quantitative criteria across the 14 PAIs listed in the table below.

| **Mandatory PAIs** | | |
|---|---|---|
| Greenhouse gas (GHG) emissions | PAI 1 | GHG emissions |
| Greenhouse gas (GHG) emissions | PAI 2 | Carbon footprint |
| Greenhouse gas (GHG) emissions | PAI 3 | GHG intensity of investee companies |
| Greenhouse gas (GHG) emissions | PAI 4 | Exposure to companies active in the fossil fuel sector |
| Greenhouse gas (GHG) emissions | PAI 5 | Share of non-renewable energy consumption and production |
| Greenhouse gas (GHG) emissions | PAI 6 | Energy consumption intensity per high impact climate sector |
| Biodiversity | PAI 7 | Activities negatively affecting biodiversity-sensitive areas |
| Water | PAI 8 | Emissions to water |
| Water | PAI 9 | Hazardous waste and radioactive waste ratio |
| Social and employee matters | PAI 10 | Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises |
| Social and employee matters | PAI 11 | Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises |
| Social and employee matters | PAI 12 | Unadjusted gender pay gap |
| Social and employee matters | PAI 13 | Board gender diversity |
| Social and employee matters | PAI 14 | Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons) |

In instances where data is either non-existent or not sufficient, either a qualitative review and/or a relevant proxy may be used as an alternative. Where a company is determined to cause or contribute to significant harm, it may still be held within the Fund but will not count toward the portion of 'sustainable investments' within the Fund.

Further information on the mandatory principal adverse impact indicators, as well as the data sources and limitations, can be found in HSBC's User Guide on Principal Adverse Indicators. This is available on: www.assetmanagement.hsbc.com/about-us/responsible-investing, by selecting your location and then choosing Policies and Disclosures.

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

The Investment Manager may use a combination of third party research and its own ESG due diligence to monitor sustainable investments for involvement in controversies which include potential breaches of UNGC principles. As part of this monitoring, there is assessment against international standards including the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct and UN Guiding Principles on Business and Human Rights.

HSBC Asset Management is also a signatory of the UN Principles of Responsible

Investment.

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 constructed using MSCI proprietary data on each securities business involvement. The Business Involvement Screening Research (BISR) highlights each securities involvement or adherence to Global sanctions, Controversies and global norms (PAI 10, 13), Carbon and Sustainable Impact (Positive screening) (PAI 8,9).

In addition a separate controversy screen is applied to the starting universe to remove any security in violation of UNGC principles (PAI 10).
In addition securities involved in Thermal coal mining and generation, Oil & Gas, are screened at a minimum threshold level and controversial weapons (PAI 14) are removed before the final index is calculated.

The performance of these PAIs will be included in the Fund's year-end report and accounts.

☐ 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 seeks to achieve an improvement of the MSCI ESG rating against that of the Parent Index.

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. The Index applies the MSCI ESG Target methodology (which is available on the Index provider’s website) to achieve its ESG objective by maximizing the exposure to the target factor(s) less a penalty for the common factor and stock-specific risk characteristics of each potential constituent, as well as placing an upper bound on the predicted tracking error of the Index, in order to maximize the exposure to the target Factor along with 20% ESG score improvement of the Factor index relative to its parent market-cap weighted index

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

- **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 is constructed from the Parent Index by 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):

· controversial weapons;
· conventional weapons/civilian firearms;
· nuclear weapons;
· adult entertainment;
· genetically modified organisms;
· alcohol;
· gambling;
· nuclear power;
· fossil fuel reserves ownership;
· fossil fuel extraction;
· thermal coal power; and
· tobacco.

Furthermore, the Index applies the MSCI ESG Target methodology (which is available on the Index provider's website) to achieve its ESG objective.

To achieve this, the Index provider applies the following steps:

At each Semi-Annual Index Review (SAIR), the following optimization constraints are employed, which aim to ensure investability while achieving improvement in ESG profile, subject to tracking error constraint relative to the Parent Index.
-The ex-ante tracking error of the Index, relative to the Parent Index will be capped at 3% - The weighted-average industry-adjusted ESG score of the Index portfolio will be at least 20% more than the weighted-average industry-adjusted ESG score of the Parent Index portfolio
- The maximum weight of an index constituent will be restricted to the lower of (the weight of the security in the Parent Index + 2%) and 10 times the weight of the security in the Parent Index. The minimum weight of an index constituent will be restricted to the higher of the (weight of the security in the Parent Index - 2%) and 0.
- The exposure of the MSCI Factor ESG Target Index to the non-target Barra style factors (factors not included in the calculation of alpha score) will be restricted to +/-0.25 standard deviations relative to the Parent Index
- The sector weights of the MSCI Factor ESG Target Index will not deviate more than +/¬ 5% from the sector weights of the Parent Index.
- For countries with weight greater than 2.5% in the Parent Index, the weight in the MSCI Factor ESG Target Index will not deviate more than +/-5% from the country weight in the Parent Index.
- For countries with weight less than 2.5% in the Parent Index, the weight in the MSCI Factor ESG Target Index will be capped at 3 times their weight in the Parent Index.

Further information on the Index methodology is available from the Index Provider's website detailed in the "Where can the methodology used for the calculation of the designated index be found?" section of this document.

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

- **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 a committed minimum rate to reduce the scope of investments.

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

  The Index Provider 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.

  In addition to the above consideration in the Index construction, 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.

**Asset allocation** describes the share of investments in specific assets.

## 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. As such, it is expected that at least 80% of the Fund's assets will be invested in either securities within the Index or in securities that meet the ESG criteria of the Index ("#1 Aligned with E/S characteristics"). The Fund may invest up to 20% of its assets in other investments ("#2 Other").

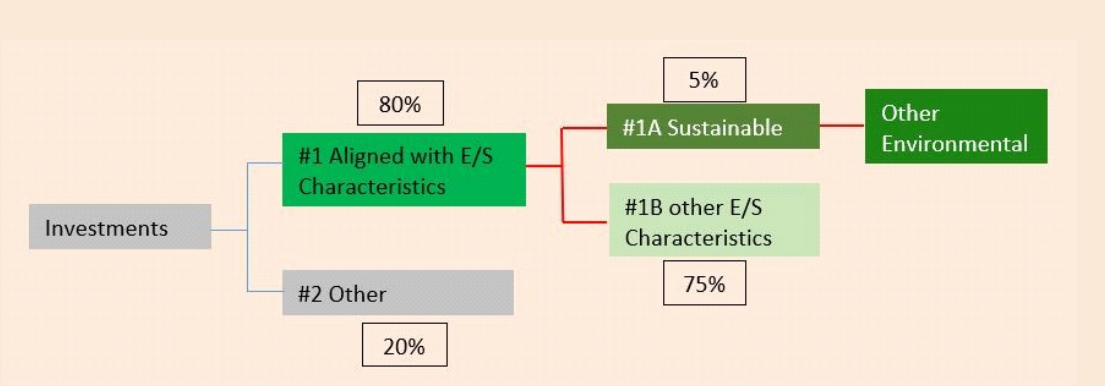
At each index rebalance, the portfolio of the Fund will be rebalanced in line with the Index so that at least 80% of the Fund's assets will be aligned with the ESG criteria of the Index (this includes 5% of the Fund's assets that are qualified as #1A sustainable investments).

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.




**#1 Aligned with E/S characteristics includes the investments of the financial product used to attain the environmental or social characteristics promoted by the financial product.**

**#2 Other includes the remaining investments of the financial product which are neither aligned with the environmental or social characteristics, nor are qualified as sustainable investments.**

**The category #1 Aligned with E/S characteristics covers:**
**- The sub-category #1A Sustainable covers sustainable investment with environmental or social objectives.**
**- The sub-category #1B Other E/S characteristics covers investments aligned with the environmental or social characteristics that do not qualify as sustainable investments.**

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

  The Fund will not use derivatives to attain the environmental or social characteristics of the Fund.

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

The Fund does not 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]

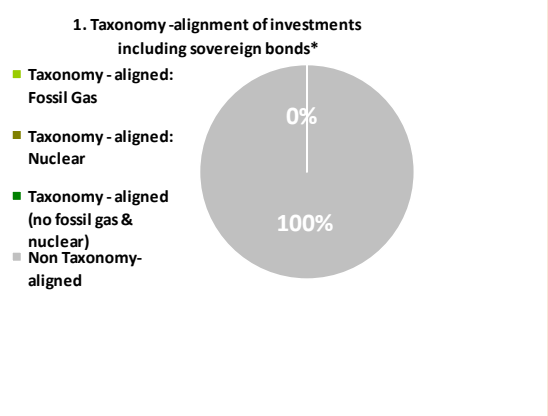
☐ yes ☐ in fossil gas ☐ In nuclear energy

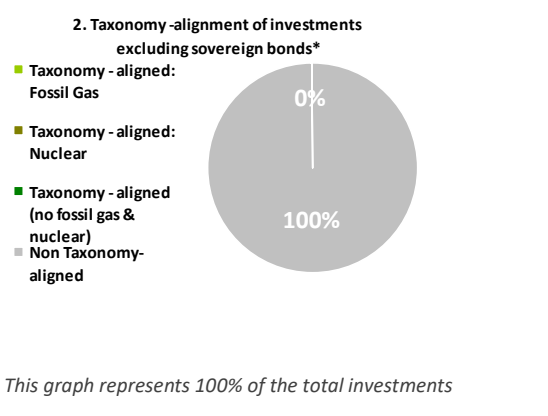
☑ No

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?***

  The Fund does not have a 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?**

The Fund invests at least 5% in sustainable investments with an environmental objective that are not aligned with the EU Taxonomy.

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

The Fund does not 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 Emerging Markets Value SRI ESG Target Select Index.

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

- **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 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):

  Furthermore, the Index applies the MSCI ESG Target methodology (which is available on the Index provider's website) to achieve its ESG objective.

  The composition of the Index is rebalanced on a quarterly 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 quarterly 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 Emerging Markets Index, which represents emerging markets equity markets worldwide, as determined by the Index provider.

  The Index first excludes 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):

Furthermore, the Index aims to maximise the exposure to the Value Factor along with a 20% ESG score improvement of the Index relative to the Parent Index.

In order to maximise exposure to the Value Factor once the exclusionary criteria referred to above are applied, the Index provider will use an optimisation technique to determine the remaining securities in the Index using a proprietary factor model which seeks maximise the performance of each security in terms of the Value Factor in relation to the overall market, while minimising the ex-ante tracking error relating to the Parent Index. The proprietary factor model measures the exposure of each remaining security to the Value Factor using three value-specific variables (price-to-book value, price-to-forward earnings and enterprise value-to-cash flow from operations) and ranks the securities in such a way that Index comprises those securities providing maximum exposure to the Value Factor.

- **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 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

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