

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 0.00% 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 tracking the performance of the Bloomberg Euro Treasury 1-3 Year Carbon Tilted Index (the "Index"), the Sub-Fund promotes the following environmental and/or social characteristic:

- Supporting the transition to a lower carbon economy by targeting an improvement in the carbon emissions profile against that of the Bloomberg Euro Aggregate Treasury 1-3 Year Index (the "Parent Index").

The Sub-Fund seeks to achieve the promotion of this characteristic by tracking the performance of the Index, which applies a carbon tilt towards countries with lower carbon per capita levels relative to the Parent Index. The index applies carbon tilts to achieve an improved carbon profile versus the Parent Index, in addition to limiting overexposure to small markets with limited liquidity. The carbon tilt factors are constructed for each country/region, independent of any index universe, using a logistic function. The function takes into account the "intensity score per capita", a score ranging from 0-10, derived from normalising the carbon per capita levels. The carbon tilt factors are used to define the final index weights.

The Index has been designated as a reference benchmark for the purpose of attaining the environmental and/or social characteristics promoted by the Sub-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 Sub-Fund, specifically measuring:

- CO2 per Capita of the Sub-Fund, relative to the Parent Index, whereby the CO2 per Capita of the Sub-Fund is expected to be lower 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?**

Not applicable.

- **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?**

Not applicable.

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

Not applicable.

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

Not applicable.

**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.

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 eligible universe of constituents applies a carbon tilt, designed to reduce exposure to GHG intensity (PAI 15) of investee countries and ultimately reduce fossil fuel exposure.

No optional indicators are taken into account.

- No

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

The Sub-Fund is passively managed and will aim to track the performance of the Index while minimising as far as possible the tracking error between the Sub-Fund’s performance and that of the Index and promoting environmental and social characteristics within the meaning



of Article 8 of SFDR. The Sub-Fund will use Optimisation techniques which consider tracking error, trading costs and availability of Index constituents when constructing the portfolio. Further detail on Optimisation is set out in the Section “Investment Techniques” in the Prospectus.

The Index consists of fixed-rate, investment-grade sovereign debt from member states of the European Union that also participate in the European Monetary Union. The Index only includes securities with maturities between 1-3 years. The Index seeks to achieve an improvement in carbon emissions against that of the Bloomberg Euro Aggregate Treasury 1-3 Year Index (the “Parent Index”). The currency of the Index is EUR and returns are unhedged. The Index is measured by total return, is market value weighted and rebalanced monthly.

The Index is based on the Bloomberg Index Methodology which applies an eligibility criterion based on a set of fundamental core design principles (namely securities that are representative of the market, replicable, relevant, objective and transparent) which are designed to accurately and comprehensively measure the underlying Index constituents. The Index is priced daily, except on market holidays, using Bloomberg’s evaluated pricing service, BVAL, with certain securities priced by third party sources.

The index also applies a carbon tilt towards countries with lower carbon per capita levels relative to the Parent Index. The index applies carbon tilts to achieve an improved carbon profile versus the parent, in addition to limiting overexposure to small markets with limited liquidity. The carbon tilt factors are constructed for each country/region, independent of any index universe, using a logistic function. The function takes into account the “intensity score per capita” for each country, a score ranging from 0-10, derived from normalising the carbon per capita levels. The carbon tilt factors are used to define the final index weights.

**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 element of the investment strategy is to track the performance of the Index while minimising as far as possible the tracking error between the Sub-Fund’s performance and that of the Index.

In tracking the performance of the Index, the Index methodology is bindingly applied to the construction of the Sub-Fund’s portfolio, such that:

1. The securities in which the Sub-Fund invests consist of fixed-rate, investment-grade sovereign debt from member states of the European Union that also participate in the European Monetary Union and only include securities with maturities between 1—3 years. The Sub-Fund seeks to achieve an improvement in carbon emissions against that of the Bloomberg Euro Aggregate Treasury 1-3 Year Bond Index (the “Parent Index”).
2. The securities in which the Sub-Fund invests are selected by the Index Provider based on the Bloomberg Index Methodology which applies an eligibility criterion based on a set of fundamental core design principles (namely securities that are representative of the market, replicable, relevant, objective and transparent) which are designed to accurately and comprehensively measure the underlying Index constituents.
3. The securities in which the Sub-Fund invests have a carbon tilt applied by the Index Provider in favour of countries with lower carbon per capita levels relative to the Parent Index in order to achieve an improved carbon profile versus the parent, in addition to limiting overexposure to small markets with limited liquidity. The carbon tilt factors are constructed for each country/region, independent of any index universe, using a logistic function. The function takes into account the “intensity score per capita” for each country, a score ranging from 0-10, derived from normalising the carbon per capita levels. The carbon tilt factors are used to define the final index weights.

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.

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

The Sub-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?**

Not applicable as the Sub-Fund invests in sovereign debt securities and not companies.

### 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.

### 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

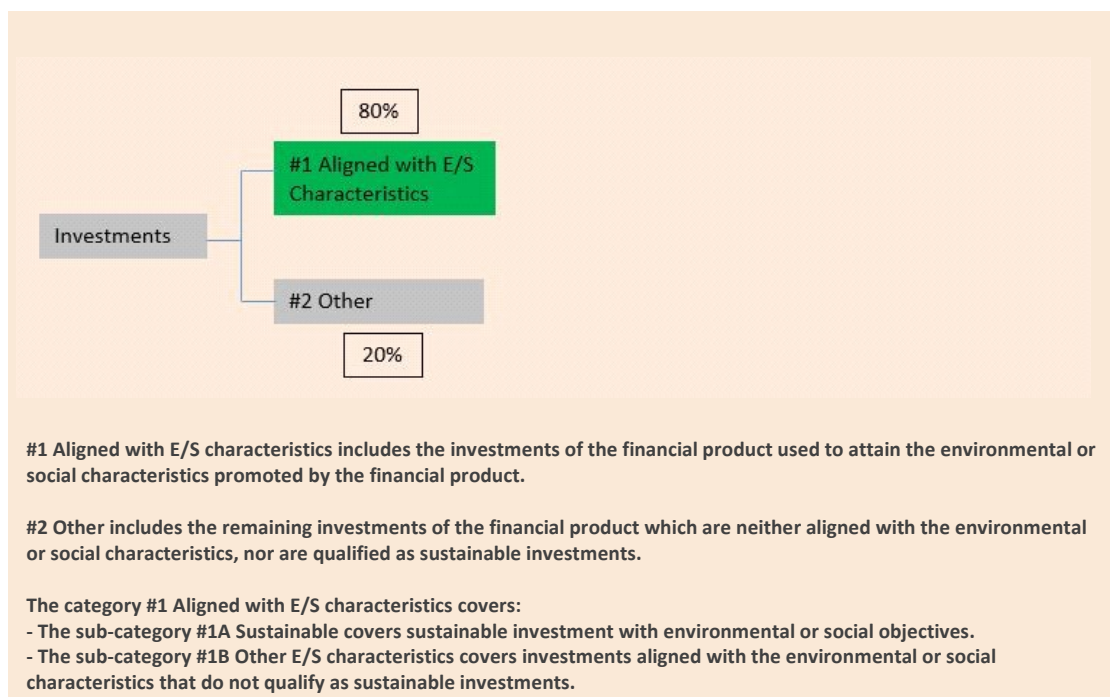
(OpEx) reflecting green operational activities of investee companies.



### 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. The Sub-Fund promotes environmental and/or social characteristics but does not aim to make sustainable investments.



- **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 and/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 Sub-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? <sup>1</sup>

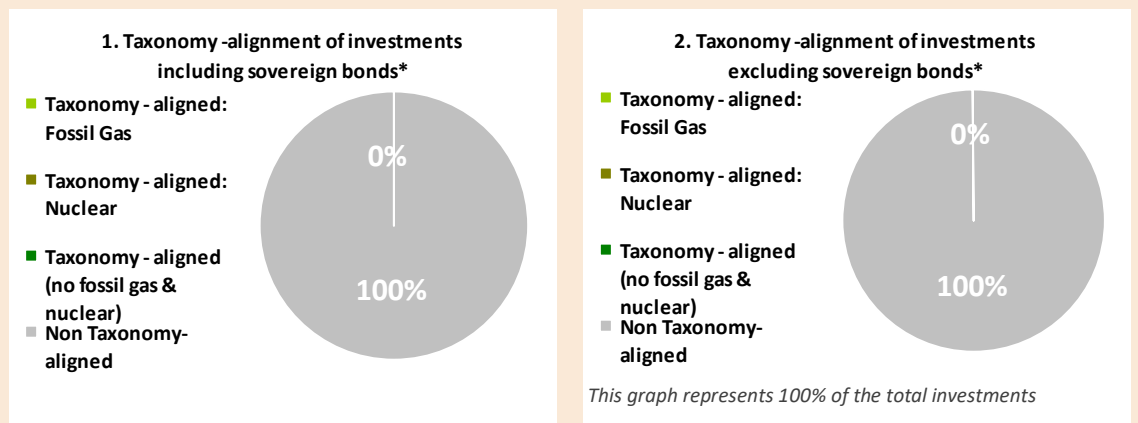
yes  in fossil gas  In nuclear energy

No

<sup>1</sup> 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.



**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.

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

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

N/A.



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.



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

N/A.



#### 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 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 Sub-Fund is to track the performance of the Bloomberg Euro Treasury 1-3 Year Carbon Tilted 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 benchmark is continuously aligned to the characteristics it promotes through its incorporation of the carbon tilt factor on all issuers within the index, which tilts towards countries with lower carbon per capita levels relative to the Parent Index.

- **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 Sub-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 monthly basis and carried out according to the published rules governing the management of the Index as determined by Bloomberg.

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

The Index consists of fixed-rate, investment-grade sovereign debt from member states of the European Union that also participate in the European Monetary Union. The Index only includes securities with maturities between 1-3 years. The Index seeks to achieve an improvement in carbon emissions against that of the Bloomberg Euro Aggregate Treasury 1-3 Year Index (the "Parent Index"). The currency of the Index is EUR and returns are unhedged. The Index is measured by total return, is market value weighted and rebalanced monthly.

The Index is based on the Bloomberg Index Methodology which applies an eligibility criterion based on a set of fundamental core design principles (namely securities that are representative of the market, replicable, relevant, objective and transparent) which are designed to accurately and comprehensively measure the underlying Index constituents. The Index is priced daily, except on market holidays, using Bloomberg's evaluated pricing service, BVAL, with certain securities priced by third party sources.

The index also applies a carbon tilt towards countries with lower carbon per capita levels relative to the Parent Index. The index applies carbon tilts to achieve an improved carbon profile versus the parent, in addition to limiting overexposure to small markets with limited liquidity. The carbon tilt factors are constructed for each country/region, independent of any index universe, using a logistic function. The function takes into account the "intensity score per capita" for each country, a score ranging from 0-10, derived from normalising the carbon per capita levels. The carbon tilt factors are used to define the final index weights.

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

<https://www.bloomberg.com/professional/products/indices/fixed-income/>

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 funds can be found on the website. Go to: [www.assetmanagement.hsbc.com](http://www.assetmanagement.hsbc.com) and select your type of investor and country/location. Please select 'Funds' from the main navigation page, where you can use the search or filter functions to find your particular fund.