HSBC Global Asset Management

ESG integration in our Euro aggregate strategy
FDC SICAV OBLIGATIONS EUR – ACTIF 2 mandate

Date: March 2018

PUBLIC

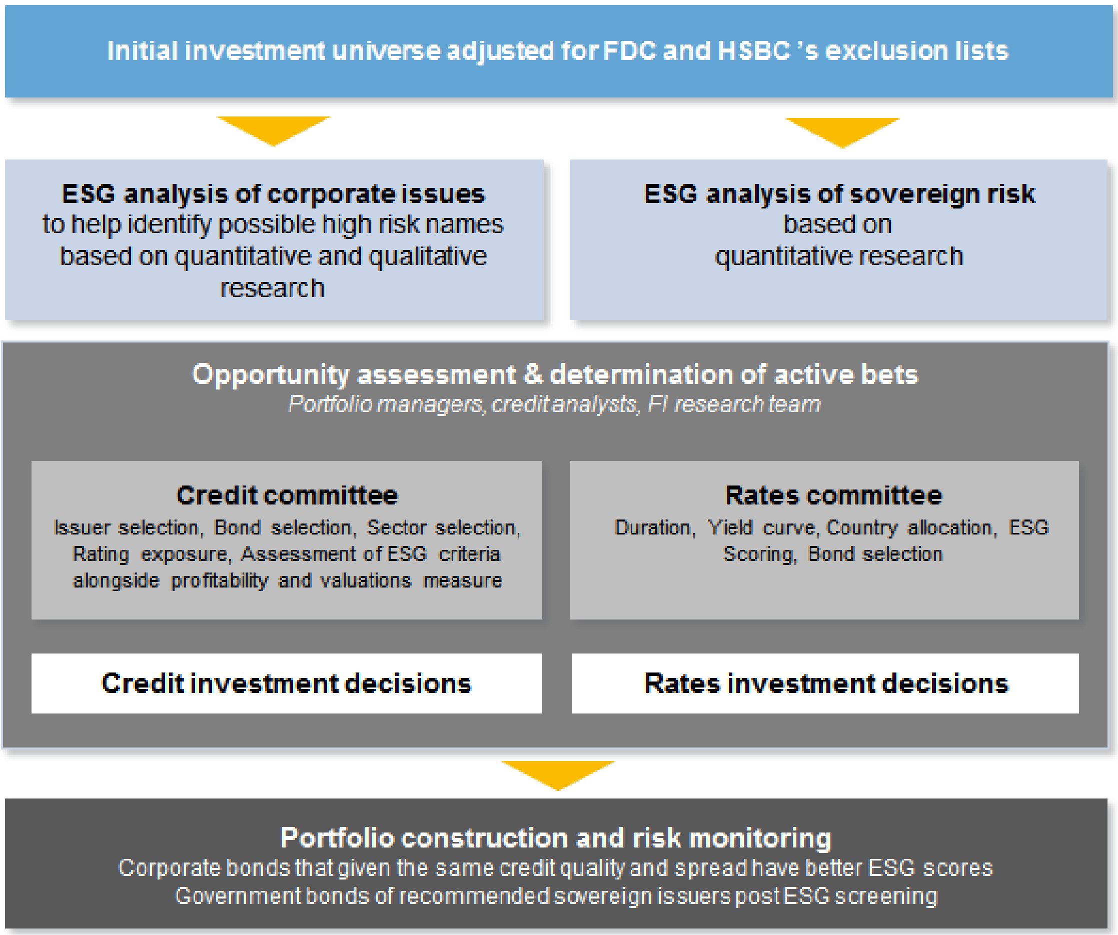
Our investment philosophy

The approach followed for FDC's sub-fund relies purely on fundamental active management which is backed by proprietary research and fully integrates Environmental, Social and Governance (ESG) considerations.

We believe that European fixed income markets often misprice underlying risks. To exploit these inefficiencies, multiple uncorrelated sources of alpha can be combined to aim for and maximise outperformance. We believe that the opportunity set lies in two major sources of alpha. For credit strategies, asymmetries caused by lack of research and investor decisions made under different constraints (ratings, maturities, etc.) create inconsistencies between risk premiums and credit fundamentals. For rates strategies, we look to exploit curve distortions and inconsistencies between the shape and level of yield curves and economic and financial factors. Each strategy is independently managed to efficiently capitalize on our managers' specialisation. We use a rigorous risk budgeting approach to combine them whilst optimising returns.

ESG forms an integral part of the process and has been systematically included since 2004. We believe that ESG issues can have a material impact on issuer fundamentals and performance over the longer-term and that they are linked to opportunities and risks that financial markets may not be pricing appropriately. Therefore, we believe that issuers who conduct their businesses in a responsible and sustainable way are more likely to deliver value over time.

As shown in the below graphic, ESG considerations are the responsibility of all our investment professionals and are integrated at each step of our investment process. The materiality of these issues is key and must be well understood and incorporated into the decision-making process.



Source: HSBC Global Asset Management as of March 2018. Representative overview of the investment process, which may differ by product, client mandate or market conditions.

Initial investment universe

The first step in the process consists of excluding:

1. FDC's exclusion list.
2. HSBC's exclusion list of companies linked to the production and/or marketing of cluster munitions, anti-personnel mines and depleted uranium.

These restrictions are included in our trading systems in order to block any potential error or trading on a pre-trade basis. This is conducted under the supervision of a specialised and independent risk team.

Opportunity assessment & determination of active bets: a team-centric approach with regular communication

Analyses for both corporate credit and sovereign bonds are leveraged upon during local weekly Euro Credit and Euro Rates Committees. During these committees, the team reviews specific issuers, discuss market trading conditions and main investment risks.

1. The Credit Committee determines the convictions on the credit markets, sector preferences, fundamental issuer selection and relative value opportunities.
2. The Rates Committee makes recommendations on duration and curve positions, country allocation and bond selection.

Investment ideas are proposed and ESG criteria are considered alongside traditional financial metrics for both corporate and sovereign bonds.

Corporate credit bonds: how ESG is integrated

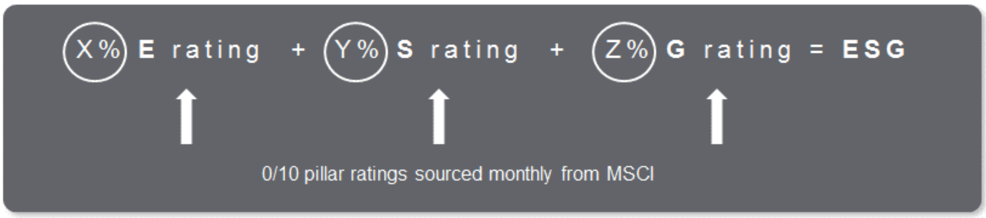
Credit research is conducted by our Global Credit Research team comprising over 45 credit analysts, specialised by sector and location and sharing the same methodology and tools. Analysts are responsible for the eligible investment universe and provide independent and comprehensive research with recommendations and ratings of the covered issuers. Analysts comply with high standards: initial issuer analysis and assessment, maintenance of internal ratings, investment recommendations and follow-up comments on every credit event such as earning release, regulatory changes, etc.

ESG analysis helps to identify possible high-risk names when analysing and rating the investment universe. Material ESG considerations are incorporated into the overall issuer analysis alongside fundamental financial considerations such as the company's competitive positioning, scale and financial metrics. The credit analysts systematically include all of these considerations in the credit reviews of the issuers and in their overall recommendation.

A proprietary global ESG intranet brings together relevant company information and analyses from internal and third-party research and is available to all investment teams (as of December 31, 2017, around 9,000 companies are available). To ensure we have sufficient ESG information, we rely on a panel of research specialists: MSCI ESG Research, ISS Ethix, Sustainalytics, Oekom Research and Trucost.[*]

The credit analysts draw upon the proprietary ESG analytics available through this ESG intranet which provides:

1. On an absolute basis, a norm-based screening, assessing minimum standards of business practice based on international norms such as the UN Global Compact.
2. On a relative basis, issuer rankings derived from our 30 proprietary ESG sector ratings (High, Medium, Low Risk) according to the following formula:



The global ESG rating (0-10 with 10 being the best) is a weighted combination of the three ratings, E: Environment, S: Social and G: Governance which are furnished by external research providers.

Source: HSBC Global Asset Management as of March 2018. Representative overview of the investment process, which may differ by product, client mandate or market conditions.

We determine the weights (X, Y and Z) based on the company's sector and underlying business. We developed the sector combinations in a thorough and collaborative process including systematic reviews, inputs and comments from all of our equity and fixed income teams. These combinations reflect the ESG impact of each industry; for example, in the Banks and Financials group, the Governance weighting (including board structure, corruption, bribery and instability) has a 60% weighting. For the Utilities and Automotives group, 50% of the aggregate weighting comes from the environmental factor.

High Risk Issuers and Enhanced Due Diligence

The bond issuers who have either violated one or more the UN Global Compact principles and/or in terms of our ESG analyses, were classified in the bottom 5% are classified as High Risk. These High Risk issuers are subject to enhanced due diligence (EDD) by the investment team. The purpose of the EDD is to determine whether the bond should be sold, acquired or maintained. This in-depth analysis puts into perspective the financial attractiveness and ESG risks of the security and in particular makes it possible to determine if the spread valuation is appropriate.

The results of the EDD are submitted to the Head of Credit Research who must approve the issuer before inclusion in the eligible investment universe. If the issuer is approved, it is put under surveillance and a dialogue is initiated with the company. In the case of exclusion, the issuer cannot be held in the portfolio and is blocked on a pre-trade basis by a specialised and independent risk team. This robust ESG analysis enhances our qualitative financial analysis and supports the generation of investment ideas.

Sovereign bonds: how ESG is integrated

ESG analysis of sovereign risk is an important component of evaluating sovereign bonds. We rely on Oekom research, available on the ESG Intranet, to provide ratings for sovereign issuers. This research is available on the ESG Intranet. The evaluation of government performance is based on two dimensions with multiple indicators:

1. Social and Governance rating – Political System and Governance, Human Rights and Fundamental Freedoms, and Social Conditions.
2. Environment rating – Natural Resources, Climate Change and Energy, and Sustainable Production and Consumption.

The rating relies on about one hundred criteria of which 30% are qualitative and provides a quantitative input for our internal country scoring tool. Using this tool, the Head of European Rate Strategy provides his country recommendations to the broader fixed income team, including the portfolio manager responsible for FDC's sub-fund.

Portfolio construction and risk monitoring

Portfolio construction is ultimately the responsibility of the portfolio manager. It consists in translating our bottom-up and top-down convictions discussed during the Credit and Rates Committees into active positions consistent with the risk calibration and constraints of the portfolio.

The portfolio manager selects the bonds within the eligible investment universe that, for the same credit quality and spread, have better global ESG scores. Thanks to the proprietary ESG intranet, he can monitor the aggregate ESG profile of the portfolio against the benchmark associated with FDC's sub-fund.

Source: HSBC Global Asset Management as of March 2018. Representative overview of the investment process, which may differ by product, client mandate or market conditions.

Important Information

DEFINITION OF TERMS

Alpha, often considered the active return on an investment, gauges the performance of an investment against a market index or benchmark which is considered to represent the market's movement as a whole. The excess return of an investment relative to the return of a benchmark index is the investment's alpha.

Bottom-up analysis considers the fundamentals of a company from numerous perspectives including its financial statements, quality of management, product or service, where it is situated in its respective industry, who its suppliers and competitors are, etc. rather than on the sector in which the company operates or on the economy as a whole.

Duration is the average time to payment. It is also a measure of the effect of interest rate changes on the price of a fixed income asset or portfolio. Duration is defined in years (that is, a three year duration means the value of the bond could rise about 3% if interest rates fall by 1%.

Sovereign debt is debt that is issued by a national government. Sovereign debt differs within and across countries e.g. by its maturity, the currency in which it is issued and whether it offers nominal or real interest rates.

Top-down analysis looks at the "big picture" first, and then the details of smaller components. Typically, the analysis begins with the global economy, then macro trends within the economies with the best opportunities followed by the sectors that are poised to take advantage of these macro trends.

The **yield curve** depicts the relationship between a bond´s maturity and its yield. The yield curve usually refers to this relation for government bonds. While the curve is often sloping upwards (i.e. higher yields for longer maturities), it is not unusual to observe other shapes (inverted, U-shaped, etc...).

The **yield spread** or **credit spread** is the difference between the quoted rates of return on two different investments, usually of different credit quality. It is often an indication of the risk premium for investing in one investment product over another.

INFORMATION REGARDING SELECT EXTERNAL ESG RESEARCH PROVIDERS

MSCI ESG RESEARCH

Although HSBC Global Asset Management's information providers, including without limitation, MSCI ESG Research LLC and its affiliates (the "ESG Parties"), obtain information from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and/or completeness of any data herein. None of the ESG Parties makes any express or implied warranties of any kind, and the ESG Parties hereby expressly disclaim all warranties of merchantability and fitness for a particular purpose, with respect to any data herein. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data herein. Further, without limiting any of the foregoing, in no event shall any of the ESG Parties have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

ABOUT TRUCOST, PART OF S&P DOW JONES INDICES, A DIVISION OF S&P GLOBAL

Trucost is part of S&P Dow Jones Indices. A leader in carbon and environmental data and risk analysis, Trucost assesses risks relating to climate change, natural resource constraints, and broader environmental, social, and governance factors. Companies and financial institutions use Trucost intelligence to understand their ESG exposure to these factors, inform resilience and identify transformative solutions for a more sustainable global economy. S&P Global's commitment to environmental analysis and product innovation allows us to deliver essential ESG investment-related information to the global marketplace. For more information, visit www.trucost.com.

DISCLAIMER

This publication and related materials are not intended to provide and do not constitute financial or investment advice. The information in this publication should not be construed or relied upon in making, or refraining from making, any investment decisions with respect to a specific company or security or be used as legal advice. Trucost is not an investment advisor, and Trucost makes no representation regarding the advisability of investing in any investment fund or other investment vehicle. A decision to invest in any investment fund or other investment vehicle should not be made in reliance on any of the statements set forth in this document.

This publication and related materials ("Information") have been prepared solely for informational purposes only based upon information generally available to the public from sources believed to be reliable. The Information may not be reproduced or disseminated in whole or in part without the prior written permission of Trucost. The information may not be used to verify or correct other data, create indexes, risk models, or analytics or in connection with issuing, offering, sponsoring, managing, marketing any securities, portfolios, financial products, or other investment vehicles.

Historical data and analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction.

Trucost, its affiliates, or its and their third-party data providers and licensors (collectively "Trucost Parties") do not guarantee the accuracy or completeness of the Information. Trucost Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Information. THE TRUCOST PARTIES MAKE NO WARRANTIES OR REPRESENTATIONS, AND, TO THE MAXIMUM EXTENT PERMITTED BY LAW, EACH TRUCOST PARTY HEREBY EXPRESSLY DISCLAIMS ALL IMPLIED WARRANTIES, INCLUDING WARRANTIES OR MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE. WITHOUT LIMITING ANY OF THE FOREGOING AND TO THE MAXIMUM EXTENT PERMITTED BY LAW, IN NO EVENT SHALL ANY OF THE TRUCOST PARTIES HAVE ANY LIABILITY REGARDING ANY OF THE INFORMATION FOR DIRECT, INDIRECT, SPECIAL, PUNITIVE, CONSEQUENTIAL (INCLUDING LOST PROFITS) OR AN OTHER DAMAGES EVEN IF NOTIFIED OF THE POSSIBILITY OF SUCH DAMAGES. The foregoing shall not exclude or limit any liability that may not by applicable law be excluded or limited.

'Trucost' is the trading name of S&P Trucost Limited a limited company registered in England company number 3929223 whose registered office is at 20 Canada Square, London E14 5HL, UK.

DISCLAIMER HSBC GLOBAL ASSET MANAGEMENT

This presentation is distributed by HSBC Global Asset Management at the request of FDC and can be distributed to non-professional investors as defined by MIFID. The information contained herein is subject to change without notice. All non-authorised reproduction or use of this commentary and analysis will be the responsibility of the user and will be likely to lead to legal proceedings. This document has no contractual value and is not by any means intended as a solicitation, nor a recommendation for the purchase or sale of any financial instrument in any jurisdiction in which such an offer is not lawful.

The commentary and analysis presented in this document reflect the opinion of HSBC Global Asset Management on the markets, according to the information available to date. They do not constitute any kind of commitment from HSBC Global Asset Management.

Consequently, HSBC Global Asset Management will not be held responsible for any investment or disinvestment decision taken on the basis of the commentary and/or analysis in this document. All data from HSBC Global Asset Management unless otherwise specified. Any third party information has been obtained from sources we believe to be reliable, but which we have not independently verified.

HSBC Global Asset Management (France) - 421 345 489 RCS Nanterre.
Portfolio management company authorised by the French regulatory authority AMF (no. GP99026) with capital of 8.050.320 euros.
Postal address: 75419 Paris cedex 08 / Offices: Immeuble Coeur Défense - 110 esplanade du Général de Gaulle - La Défense 4 - 92400 Courbevoie - France

www.assetmanagement.hsbc.com/fr

Non contractual document, updated on: March 2018. Expires March 2019.