

# CIO Academy

## Private Infrastructure: An All-Weather Portfolio Ballast, Especially Relevant in Times of Public Market Dislocations

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### Contributors



**Neha Sahni**

Director – Global Market  
Strategist, CIO Office, HSBC  
Private Bank and Premier  
Wealth

**Highlights:** The world has unwittingly entered a new normal in 2025 – one with higher tariffs, lower economic growth, and potentially higher inflation (depending on where the new US tariffs settle). In this new normal, public market assets are susceptible to gyrations and if there's one thing that any investment portfolio needs, it is the good old diversification. However, as witnessed in H1 2025, conventional sources of portfolio diversification haven't always worked in periods of market dislocations. Why? Because the negative correlation between stocks and bonds became positive (hence both sold off in tandem) signifying that the fixed income element may have lost some of its traditional hedging capability. As such, a standard 60/40 stock-bond portfolio may no longer be diversified enough. In this new regime, we believe investors need to **diversify their diversifiers** by allocating to other asset classes with different risk-return attributes vs. public markets. One such different source of diversification is **infrastructure**, which not only has a low correlation to conventional assets but also offers downside protection in an inflationary environment through its long-term contracts and CPI-indexed revenues. This makes infrastructure an all-weather asset class – a 'Steady Eddie' in layman terms - thanks to its defensive, consistent, and growing cash flow streams which are inflation hedged, making it an effective portfolio ballast, especially in times of public market dislocations.

- **Besides being shaped by the structural trends of 'The Three D's – Digitalisation, Decarbonisation and De-globalisation** (i.e. the reshoring of supply chains requiring adequate physical and digital facilities), infrastructure is now being driven by new cyclical catalysts that are underpinned by geopolitical forces and economic imperatives. We term these as **'The Great Recalibration of Global Priorities'**:
  - 1.) Global governments' focus on energy self-reliance and their unprecedented sense of urgency with regards to attaining energy security.
  - 2.) Trump 2.0 policies prioritising American national interest – reshoring of manufacturing and the ongoing buildout of AI infrastructure.
  - 3.) Europe's renewed commitment towards boosting defense and domestic infrastructure.
- **Due to a culmination of these structural and cyclical drivers, Infrastructure looks all set for its next multi-decade cycle**, providing investors a broader opportunity set, especially at a time when copious volumes of undeployed private capital is targeting long-term, inflation-linked returns. As such, investors with long term investment horizons and an ability to withstand the illiquidity risk that comes with owning long life assets should reap the benefits of diversification and stable inflation hedged returns that private infrastructure offers.

## Introduction

Investing optimally has never been easy. There are a myriad of factors that impact the initial decision-making process and the eventual investment outcome. Add to this already complex mix, the new challenges of the Trump-tariffs' era, and the picture gets murkier.

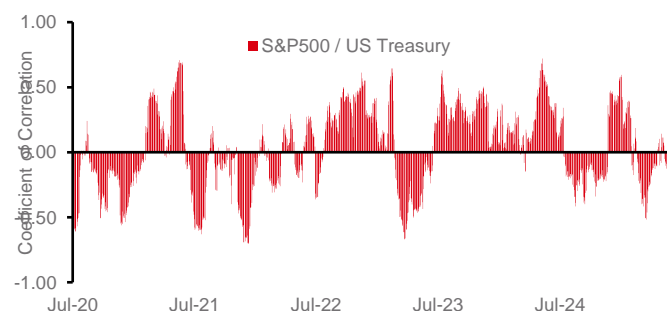
Thanks to the policy uncertainty and tariffs flip-flops, the world has unwittingly entered a new normal in 2025 – one with higher tariffs (with at least a 10% baseline assumption vs. ~2% pre-Liberation day), lower economic growth, and potentially higher inflation (depending on where the new US tariffs eventually settle). In this new normal, public market assets are prone to gyrations and if there's one thing that any investment portfolio badly needs, it is good old 'Diversification'.

But traditional asset classes which were once considered adequate enough to build a balanced and diversified portfolio (case in point being the traditional 60-40 portfolio) aren't providing enough diversification today.

**Why?** That's because the conventionally negative correlation between bonds and equities turned positive in recent market dislocations and hence they sold-off in tandem, providing little-to-no diversification benefits (see below chart). As such, listed fixed income, a traditional diversifier in a 60/40 portfolio appears to have lost some of its traditional hedging capability.

In this 'new normal' where a 40% fixed income portfolio allocation may or may not fulfil its traditional hedging function in periods of market dislocation, investors must look for alternative sources of diversification. One such source of portfolio diversification that could work in all market environments, especially in periods of market dislocation is infrastructure.

### 25-day correlation of daily returns of S&P500 and US Treasuries



Source: Bloomberg, HSBC Private Bank, August 2025.

## What is Infrastructure?

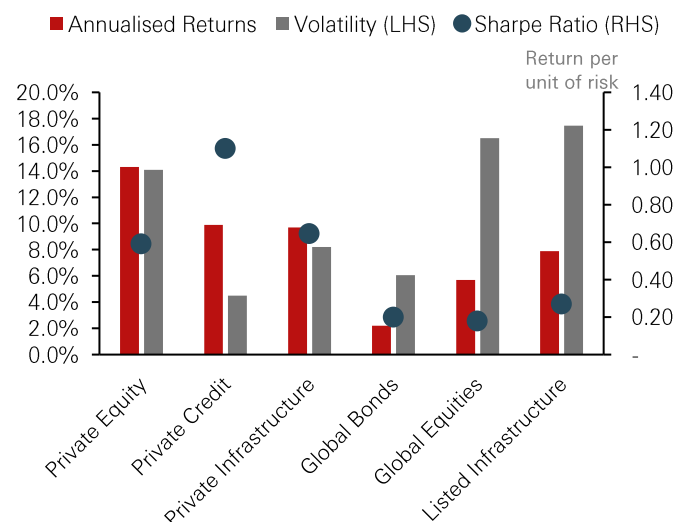
Infrastructure as an asset class essentially refers to long-life capital assets that impact people's daily lives, from roads, rail, bridges, to electricity, water, fibre optics and telephone networks. The privatisation of assets within the sector in the 1990s marks the formal founding of this asset class, however, since the Global Financial Crisis of 2008, the private infrastructure market has more than tripled in size, with alternatives' investors now owning or operating a large proportion of economic infrastructure globally.

## What are the benefits of having a portfolio allocation to private infrastructure?

Investing in infrastructure can offer a variety of benefits that can allay many investors' concerns in the current macroeconomic environment and improve a portfolio's risk/return profile. These include:

- 1.) **High Returns, lower volatility:** As infrastructure assets are typically essential to the society and economy, they often have strong local market share and therefore have historically shown higher returns but lower volatility. The below chart shows how private infrastructure has delivered higher risk adjusted returns (Sharpe ratio) vs. listed assets, particularly global equities, over a 20-year period.

### Comparing asset class annual returns and standard deviation between 2004-23, private infrastructure delivered higher risk adjusted returns vs listed equities



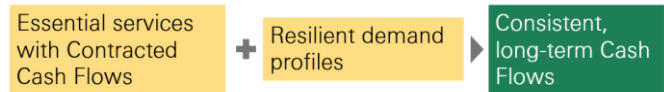
Source: HSBC Private Bank, KKR, August 2025; Data as at 30 Dec 2023. Private infrastructure modelled using the Cambridge Associates Infrastructure index. Private Equity modelled using Cambridge Associates Private Equity Index. Private Credit modelled using the Cliffwater Direct Lending Index.

**2.) Downside protection:** Given the longterm nature of their businesses, infrastructure companies often have long-dated contracts with secure terms - with governments or corporates. With such longterm lock-ins, their revenue streams are stable, have a margin of safety and, therefore, provide resilience in periods of economic turmoil and market disruptions.

**3.) Inflation protection:** An allocation to infrastructure provides access to inflation-linked revenue streams. With CPI indexation of revenues, core infrastructure cash flows and asset values tend to benefit from higher inflation and rates.

**4.) Consistency of yield:** Many of these companies benefit from a link (often set by the regulator) between their input costs and the prices they charge, which effectively protects their profits. They can typically pass on rising costs through price adjustments to varying extent, depending on sectors and jurisdictions. As a result, exposure to infrastructure offers consistency of income and attractive risk-adjusted returns. Such consistency of yield is very attractive in periods of high uncertainty and often acts as a ballast in a multi-asset portfolio.




**Infrastructure provides consistent income under varying market conditions**



Source: HSBC Private Bank, August 2025

**5.Diversification:** Infrastructure as an asset class has a low correlation to both listed equities and bonds and, therefore, acts as a great risk diversifier in a multi-asset portfolio. With different drivers of return and an ability to generate real cash flows, the appeal of infrastructure stocks increases in an environment of higher/sticky inflation. Plus, as various types of physical and digital assets constitute infrastructure, there’s ample diversification within infrastructure as an asset class. For example, the risk profile and drivers of return on physical infrastructure like roads, railways etc. are very different from the drivers of digital infrastructure like data centres, telecom towers and fibre.

**Private infrastructure incorporates various types of assets providing essential services critical to the economy**

Digital	Energy	Transportation
 <ul style="list-style-type: none"> <li>• Data centres</li> <li>• Telecom Towers</li> <li>• Fibre</li> </ul>	 <ul style="list-style-type: none"> <li>• Utilities / Transmission</li> <li>• Pipelines</li> <li>• Renewables</li> </ul>	 <ul style="list-style-type: none"> <li>• Roads</li> <li>• Ports</li> <li>• Airports</li> <li>• Railroads</li> </ul>

Source: HSBC Private Bank, August 2025

**6.) Exposure to long-life real assets:** An allocation to infrastructure provides exposure to long-life, high-quality real assets. Such high-quality assets normally outperform in an inflationary environment marked by greater uncertainty and market volatility.

**7.) High Return on Equity:** Many infrastructure assets operate in industries with high barriers to entry and enjoy a dominant market position. Through their pricing power, they can maintain a reasonable return on equity.

## Infrastructure works in different economic scenarios

As investors consider incorporating private infrastructure in their portfolios, we think it is helpful to consider its defensive characteristics under several different economic scenarios:

### Different macroeconomic scenarios

If inflation remains under control and interest rates decline...	If inflation remains at current, elevated levels or rises significantly...	If macro volatility remains elevated or declines...
<p>Yield becomes increasingly important to investors.</p> <p>Private infrastructure investments benefit from a lower discount rate.</p>	<p>Private infrastructure provides an important inflation hedge.</p>	<p>Private infrastructure offers long-term, relatively predictable revenue streams with low-to-moderate correlation to other asset classes.</p>

Source: KKR, HSBC Private Bank, August 2025



## What's driving private infrastructure now?

### We think it's 'The Great Recalibration of Global Priorities'

Besides the attractive features of infrastructure that make it an all-weather portfolio ballast, there are some cyclical and structural catalysts, which we believe should drive infrastructure's high returns over the coming few years.

Whilst long term trends like climate protection and hence the need for **Decarbonisation** via energy transition; **Deglobalisation** which started in earnest post Covid via reshoring of supply chains and manufacturing; and **Digitalisation** via electrification and AI – had already been driving unprecedented demand and hence investments in physical and digital infrastructure, there are some recent geopolitical and economic catalysts which have come to fore which appear to have triggered the next infrastructure cycle:

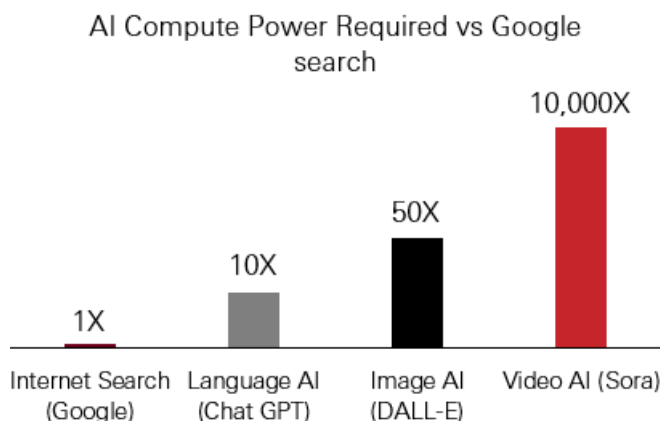
- 1.) **Energy security:** A long drawn war at Europe's doorstep coupled with sudden flare-ups in Middle East tensions have underscored one big realisation for global governments in recent years – **the imperative of energy self-reliance.**

**And when energy security is a priority, governments act faster.** This need for energy security has turned out to be a much bigger driver of energy transition than environmental concerns/Net Zero commitments, fuelling global decarbonisation imperatives both from corporates and governments - driving new investments in infrastructure, especially in renewables nuclear, wind and solar energy. They've realised that unlike fossil fuels (which you either have access to or not), renewable energy can be created, but only with the right investments in infrastructure. And regardless of President Trump's scepticism on climate policies and initiatives, energy infrastructure demand is likely to persist, primarily driven by the national imperative of energy security.

The world is at a turning point where power demand will increase materially, whether it is from data centres, general electrification or the reshoring of manufacturing. The US government, in particular, recognises that if America wants to retain its AI leadership, (especially in the backdrop of China's fast rise in this space), alongside focusing on chip technology and ecosystem, it also needs to satiate AI's ever rising power hunger. But the US grid has lacked investments in the past several decades and is inadequate to meet the rising power demand from AI. This scarcity of power due to chronic underinvestment in grids combined with an ever growing power

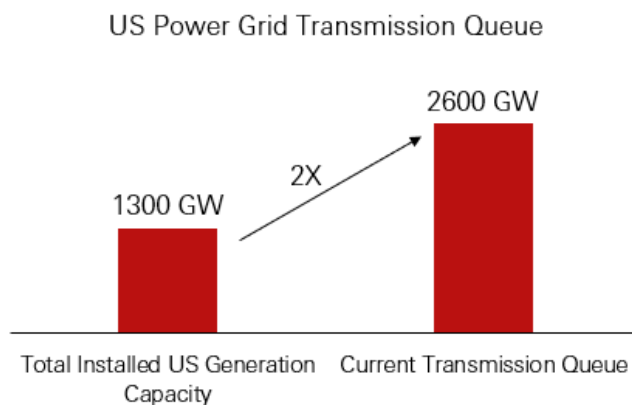
demand from AI is driving investment in renewables (including nuclear). As the ecosystem of digital infra, for example more data centres get built, demand for power will surge. It's quite clear to both the US government and private companies that there can be no AI advancements without an adequate energy infrastructure.

### AI revolution is fuelling a surge in demand for power



Source: Blackstone, Internet Search and Language AI: Reuters, HSBC Private Bank, August 2025

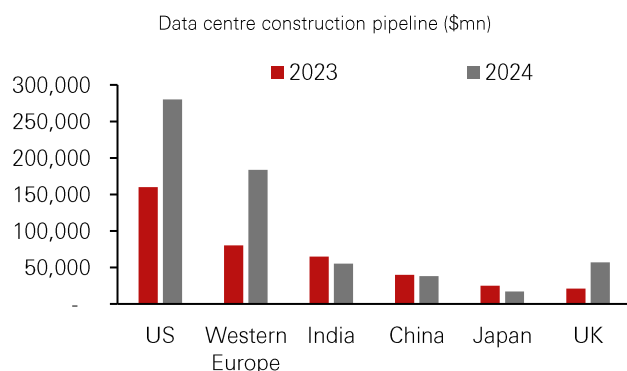
### But the US grid has lacked investment for decades and therefore can't cope with increasing energy demand



Source: Blackstone, Lawrence Berkley National Laboratory, 30 April 2024; HSBC Private Bank, August 2025

- 2.) **Trump 2.0 Policies – A key catalyst for the next infrastructure cycle:** One of the key policy tenets of Trump 2.0 administration is reshoring of manufacturing and a focus on enhancing **America's AI leadership** – both of which call for an investment in both digital and physical infrastructure. The announcement of Stargate project to boost America's AI infrastructure in early 2025 was one key policy tailwind in this regard. As such, America's construction of manufacturing facilities has been on a steady rise and this trend has recently been aided by the data centres' construction pipeline (see below chart). According to GlobalData and Bloomberg (June 2025), AI-driven data centre construction surged in Q4 24, with total project pipeline rising 34% to \$771 billion at the end of the year vs end-3Q.

#### Data centre construction is booming



Source: Global data, Bloomberg Intelligence, HSBC Private Bank, August 2025

**Then there's the One Big Beautiful Bill Act (OBBA):** More recently, President Trump's One Big Beautiful Bill is another key policy catalyst supporting infrastructure buildout. Whilst primarily known to extend individual tax cuts, it isn't just about locking-in lower individual tax rates from the 2017 Tax Cuts and Jobs Act. It also offers a **complete overhaul of R&D expensing** and numerous tax incentives to industrials; encourages domestic manufacturing by restoring **100% bonus depreciation** for capital investments, allowing businesses to fully deduct the cost of qualifying equipment and property in the year it's purchased and placed in service. This will boost cash flow and make it more affordable to invest in new machinery and infrastructure.

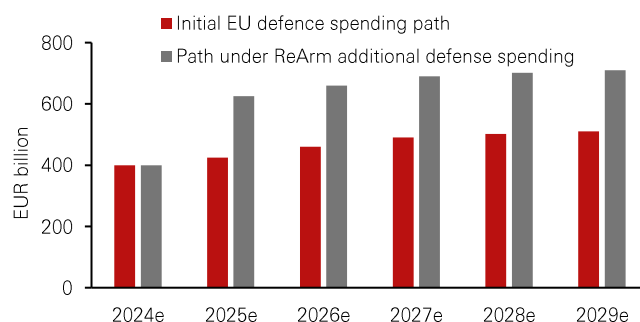
OBBA also has a **new 100% deduction for Qualified Production Property**, which is defined as newly constructed non-residential property primarily used for manufacturing, production or refining of goods. The One Beautiful Bill also modifies existing energy tax credits and introduces new ones. It therefore **has a suite of capital-formation incentives**, alongside **expedited deregulation** to boost private and infrastructure investments. It remains to be seen whether the bill also

stokes inflation as it comes with a fiscal cost. But in the event US inflation rises, private infrastructure's inflation hedging properties should act as a portfolio ballast for investors.

- 3.) **Europe' infrastructure/defense spending :** Europe is scaling up its public investment, aided by supportive policy momentum and deployment of the remaining EU Recovery & Resilience Facility (RRF) funds. Over €80 billion in digital and green infrastructure investment is expected to enter execution phase by Q4 2025, creating a demand uplift across construction services, engineering firms, and capital goods suppliers. NATO countries have also committed to sharply increase their defense spending over the next decade. EU's defence spending is expected to ramp up from ~€400 billion in 2024e to over €510 billion by 2029e (Source: Bloomberg, June 2025). This surge in defence-related capex will dovetail with the EU's digital and green infrastructure push—bolstering orders for construction equipment, automation systems and engineering services. A large part of EU's planned infrastructure investments like railways, roads, ports, shipyards and bridges fall within the NATO parameters because they have dual-use applications. Hence EU's defense commitment is also a big tailwind for EU's infrastructure investments. (Source: Reuters, July 2025).

Momentum indicators in the Eurozone are also turning more constructive. Non-residential building permits and infrastructure tender activity have picked up in Germany, France, and Italy, which are further expected to benefit from energy transition funding and digital infrastructure upgrades. Forward indicators show a pipeline build-up in metro rail, port modernisation, and clean energy projects.

#### Europe's commitment to raise its defense and infrastructure spending is a big tailwind for infrastructure investment



Source: Bloomberg, HSBC Private Bank, August 2025. Forecasts are subject to change.

## Opportunities

### **A broader investor opportunity set arising in infrastructure...**

In the current macroeconomic scenario, if there's one asset class that finds itself at the cross section of mega trends like the rise of AI, the need for energy security, and new geopolitical/policy catalysts that would propel it towards its next multi-decade cycle, it's private infrastructure. As per Bloomberg, infrastructure activity is thriving on investment that's expected to increase another 8-9% in 2025 after an 8.2% gain in 2024. That's helping counter the negative effects of economic and political uncertainty. Strategically, record backlogs in vital sectors such as data centres, energy and transportation, position the industry favourably versus prior financial crises. Inorganic growth will be a key catalyst, especially in climate transition and AI segments. Construction demand spikes are anticipated in the US, with benefits from infrastructure stimulus.

### **...is being met with a surge in private capital targeting long-term, inflation-linked returns**

But many governments (especially in Europe) do not have the fiscal space to fund all their infrastructure needs. They therefore need private market funding. Thankfully, there's copious amount of private capital sitting on the sidelines, chasing long term, inflation hedged returns. Such a scenario is creating positive flows and momentum for private infrastructure.

Investors with long term investment horizons and an appetite to withstand near term illiquidity should reap the benefits of diversification and stable inflation hedged returns, should they make a well-sized allocation to private infrastructure.

## Risks

Investing in any private market asset essentially means taking active ownership of less liquid assets. And given the long-term nature of these investments, the asset class is commonly seen as a longer-term yield play rather than a short-term investment focused on capital appreciation. Only those investors who are willing to invest for the long run and are able to withstand the illiquidity risk that comes with the ownership of long life assets should consider allocating to private infrastructure.

There is a risk that the infrastructure needed today may become outdated soon if there is innovation, especially in the digital space, where investment and upgrading needs can be quick and costly. Furthermore, emerging risks from climate change could inflict damage to physical infrastructure and repairing/replacing these may prove to be costly and time-consuming.

An active approach is important in order to select investments that actually share the desired economic and risk/return characteristics. Investing in the right private infrastructure managers that have the network, experience and sourcing capabilities to get the right infrastructure deals for investors is important. For further information, please speak to your relationship manager or investment counsellor.

# Risk Disclosures

## Risks of investment in fixed income

There are several key issues that one should consider before making an investment into fixed income. The risk specific to this type of investment may include, but are not limited to:

### Credit risk

Investor is subject to the credit risk of the issuer. Investor is also subject to the credit risk of the government and/or the appointed trustee for debts that are guaranteed by the government.

### Risks associated with high yield fixed income instruments

High yield fixed income instruments are typically rated below investment grade or are unrated and as such are often subject to a higher risk of issuer default. The net asset value of a high-yield bond fund may decline or be negatively affected if there is a default of any of the high yield bonds that it invests in or if interest rates change. The special features and risks of high-yield bond funds may also include the following:

- Capital growth risk - some high-yield bond funds may have fees and/ or dividends paid out of capital. As a result, the capital that the fund has available for investment in the future and capital growth may be reduced; and
- Dividend distributions - some high-yield bond funds may not distribute dividends, but instead reinvest the dividends into the fund or alternatively, the investment manager may have discretion on whether or not to make any distribution out of income and/ or capital of the fund. Also, a high distribution yield does not imply a positive or high return on the total investment.
- Vulnerability to economic cycles - during economic downturns such instruments may typically fall more in value than investment grade bonds as (i) investors become more risk averse and (ii) default risk rises.

### Risks associated with subordinated debentures, perpetual debentures, and contingent convertible or bail-in debentures

- Subordinated debentures - subordinated debentures will bear higher risks than holders of senior debentures of the issuer due to a lower priority of claim in the event of the issuer's liquidation.
- Perpetual debentures - perpetual debentures often are callable, do not have maturity dates and are subordinated. Investors may incur reinvestment and subordination risks. Investors may lose all their invested principal in certain circumstances. Interest payments may be variable, deferred or cancelled. Investors may face uncertainties over when and how much they can receive such payments.
- Contingent convertible or bail-in debentures - Contingent convertible and bail-in debentures are hybrid debt-equity instruments that may be written off or converted to common stock on the occurrence of a trigger event. Contingent convertible debentures refer to debentures that contain a clause requiring them to be written off or converted to common stock on the occurrence of a trigger event. These debentures generally absorb losses while the issuer remains a going concern (i.e. in advance of the point of non-viability). "Bail-in" generally refers to (a) contractual mechanisms (i.e. contractual bail-in) under which debentures contain a clause requiring them to be written off or converted to common stock on the occurrence of a trigger event, or (b) statutory mechanisms (i.e. statutory bail-in) whereby a national resolution authority writes down or converts debentures under specified conditions to common stock. Bail-in debentures generally absorb losses at the point of non viability. These features can introduce notable risks to investors who may lose all their invested principal.

### Contingent convertible securities (CoCos) or bail-in debentures

**are highly complex, high risk hybrid capital instruments with unusual loss-absorbency features written into their contractual terms.**

Investors should note that their capital is at risk and they may lose some or all of their capital.

### Changes in legislation and/or regulation

Changes in legislation and/or regulation could affect the performance, prices and mark-to-market valuation on the investment.

### Nationalisation risk

The uncertainty as to the coupons and principal will be paid on schedule and/or that the risk on the ranking of the bond seniority would be compromised following nationalisation.

### Reinvestment risk

A decline in interest rate would affect investors as coupons received and any return of principal may be reinvested at a lower rate. Changes in interest rate, volatility, credit spread, rating agencies actions, liquidity and market conditions may have a negative effect on the prices, mark-to-market valuations and your overall investment.

### Risk disclosure on Dim Sum Bonds

Although sovereign bonds may be guaranteed by the China Central Government, investors should note that unless otherwise specified, other renminbi bonds will not be guaranteed by the China Central Government.

Renminbi bonds are settled in renminbi, changes in exchange rates may have an adverse effect on the value of that investment. You may not get back the same amount of Hong Kong Dollars upon maturity of the bond.

There may not be active secondary market available even if a renminbi bond is listed. Therefore, you need to face a certain degree of liquidity risk.

Renminbi is subject to foreign exchange control. Renminbi is not freely convertible in Hong Kong. Should the China Central Government tighten the control, the liquidity of renminbi or even renminbi bonds in Hong Kong will be affected and you may be exposed to higher liquidity risks. Investors should be prepared that you may need to hold a renminbi bond until maturity.

### Alternative Investments

**Hedge Fund** - Please note Hedge Funds often engage in leveraging and other speculative investment practices that may increase the risk of investment loss. They can also be highly illiquid, are not required to provide periodic pricing or valuation information to investors, and may involve complex tax structures and delays in distributing important information. Alternative investments are often not subject to the same regulatory requirements as, say, mutual funds, and often charge high fees that may potentially offset trading profits when they occur.

**Private Equity** - Please note Private Equity is generally illiquid, involving long term investments that do not display the liquid or transparency characteristics often found in other investments (e.g. Listed securities). It can take time for money to be invested (cash drag) and for investments to produce returns after initial losses.

### Risks of investing in private markets

**The value of investments and any income from them can go down as well as up and investors may not get back the amount originally invested. Past performance information presented is not indicative of future performance. The return and costs may increase or decrease as a result of currency fluctuations.**

- **Liquidity Risk** - Investors may be unable to dispose of an investment quickly and at a price that's closely related to recent similar transactions. There is no guarantee of distributions and no established secondary market.

- **Event Risk** - A significant event may cause a substantial decline in the market value of all securities.
- **Long-term Horizon** - Investors should expect to be locked-in for the full term of the investment, which is subject to extensions.
- **No Capital Protection** - Investors may lose the entirety of invested capital.
- **Unpredictable Cashflows** - Capital may be called and distributed at short notice.
- **Economic Conditions** - Ability to realise/divest from existing investments depends on market conditions and the regulatory environment.
- **Risk of Forfeiture** - Failure to make call payments could result in forfeiture of commitment, including invested capital, without compensation.
- **Default Risk** - in the event of default investors risk losing their entire remaining interest in the vehicle and may be subject to legal proceedings to recover unfunded commitments.
- **Reliance on Third-party Management Teams** - Underlying investments will be managed by various third-party management teams that will in aggregate determine the eventual returns for the investor.

The risk factors listed above are not exhaustive, always refer to product specific documentation for full details and risk disclosures.

#### **Risk disclosure on Emerging Markets**

Investment in emerging markets may involve certain, additional risks which may not be typically associated with investing in more established economies and/or securities markets. Such risks include (a) the risk of nationalisation or expropriation of assets; (b) economic and political uncertainty; (c) less liquidity in so far of securities markets; (d) fluctuations in currency exchange rate; (e) higher rates of inflation; (f) less oversight by a regulator of local securities market; (g) longer settlement periods in so far as securities transactions and (h) less stringent laws in so far the duties of company officers and protection of Investors.

#### **Risk disclosure on FX Margin**

The price fluctuation of FX could be substantial under certain market conditions and/or occurrence of certain events, news or developments and this could pose significant risk to the Customer.

Leveraged FX trading carry a high degree of risk and the Customer may suffer losses exceeding their initial margin funds. Market conditions may make it impossible to square/close-out FX contracts/options. Customers could face substantial margin calls and therefore liquidity problems if the relevant price of the currency goes against them.

The leverage of a product can work against you and losses can exceed those of a direct investment. If the market value of a portfolio falls by a certain amount, this could result in a situation where the value of collateral no longer covers all outstanding loan amounts. This means that investors might have to respond promptly to margin calls. If a portfolio's return is lower than its financing cost then leverage would reduce a portfolio's overall performance and even generate a negative return.

#### **Currency risk – where product relates to other currencies**

When an investment is denominated in a currency other than your local or reporting currency, changes in exchange rates may have a negative effect on your investment.

#### **Chinese Yuan ("CNY") risks**

There is a liquidity risk associated with CNY products, especially if such investments do not have an active secondary market and their prices have large bid/offer spreads.

CNY is currently not freely convertible and conversion of CNY

through banks in Hong Kong and Singapore is subject to certain restrictions. CNY products are denominated and settled in CNY deliverable in Hong Kong and Singapore, which represents a market which is different from that of CNY deliverable in Mainland China.

There is a possibility of not receiving the full amount in CNY upon settlement, if the Bank is not able to obtain sufficient amount of CNY in a timely manner due to the exchange controls and restrictions applicable to the currency.

#### **Illiquid markets/products**

In the case of investments for which there is no recognised market, it may be difficult for investors to sell their investments or to obtain reliable information about their value or the extent of the risk to which they are exposed.

#### **Environmental, Social and Governance ("ESG") Customer Disclosure**

In broad terms "ESG and sustainable investing" products include investment approaches or instruments which consider environmental, social, governance and/or other sustainability factors to varying degrees. Certain instruments we classify as ESG or sustainable investing products may be in the process of changing to deliver sustainability outcomes. There is no guarantee that ESG and Sustainable investing products will produce returns similar to those which don't have any ESG or sustainable characteristics. ESG and Sustainable investing products may diverge from traditional market benchmarks. In addition, there is no standard definition of, or measurement criteria for, ESG and Sustainable investing or the effect of ESG and Sustainable investing products. ESG and Sustainable investing and related measurement criteria are (a) highly subjective and (b) may vary significantly across and within sectors.

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An investment which is considered to fulfil sustainable criteria today may not meet those criteria at some point in the future. When we allocate an HSBC ESG and Sustainable Investing (SI) classification: HSBC ESG Enhanced, HSBC Thematic or HSBC Impact (this is known as HSBC Purpose in the UK) to an investment product, this does not mean that all individual underlying holdings in the investment product or portfolio individually qualify for the classification. Similarly, when we classify an equity or fixed income under an HSBC ESG Enhanced, HSBC Thematic or HSBC Impact (this is known as HSBC Purpose in the UK) category, this does not mean that the underlying issuer's activities are fully aligned with the relevant ESG or sustainable characteristics attributable to the classification. Not all investments, portfolios or services are eligible to be classified under our ESG and SI classifications. This may be because there is insufficient information available or because a particular investment product does not meet HSBC's SI classifications criteria.

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