

# Investor Essentials

## Choices over Brilliance -The Dos and Don'ts of Investing for a New Investor – Part 1 of 3

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### Contributors



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**Highlights:** *“It is our choices, Harry, that show what we truly are, far more than our abilities.”*

Dumbledore’s point, from the Harry Potter book, lands just as well in investing as it does in the Great Hall: long-term outcomes aren’t driven by one brilliant move or a “natural” knack for markets, but by the everyday decisions you repeat—starting early, investing regularly, staying diversified, and keeping your cool when headlines get loud. For NextGen investors, the goal isn’t to make one perfect call; it’s to build repeatable positive habits that compound over time. This paper lays out practical dos and don’ts to help you build wealth steadily in the background—no magic wand required, just smart choices made consistently.

Careers are less linear, costs are higher, and the noise is constant. That’s exactly why a simple investing system can be a NextGen superpower. So, let’s start by build strong investment foundations:

- **Define your “why” before your “what”.** Why should one invest? Because, investing builds wealth, and wealth creates optionality—more freedom to choose your home, career, lifestyle, and future.
- **But before you start investing, build strong financial foundations:** Budget with intention. Pay your future self-first. Maintain an emergency fund and protections. Use debt intentionally (i.e. decipher between good vs bad debt) and prioritise financial freedom over appearances.
- **Then invest with a system you can stick with.** Start early—even if small. Automate contributions. Avoid market-timing. Rebalance on schedule. Define risk as *“can I stay invested through a drawdown?”* and treat **volatility** as the **admission fee** for long-term returns. Use the “doubling” lens to make compounding intuitive: it looks slow at first, but real impact comes later.
- **Simultaneously, also create your ‘Personal Growth Playbook’** – because personal growth is positively correlated with wealth growth. Build your ‘Identity Capital’. Improve your financial literacy. Upgrade your earnings power. Curate a high-quality information diet. Stack small gains through discipline. Be a lifelong learner and build a network that strengthens judgement (and opportunities).
- **In parts 2 & 3 of this *Investor Essentials* series,** we’ll discuss concepts like the Rule of 72; Diversification from the NextGen lens – covering geographies, assets and currencies and more.

## Let's start with the 'Why'

Before one decides *what* to invest in, one needs to be clear on *why* they're investing at all.

**So, why should one invest at all?** Investing is how money becomes **wealth** —and wealth creates **optionality**: the freedom to create and live a life that offers choices. A first home deposit. The ability to change careers without panic. Supporting family. Funding a business idea. Retiring earlier — or simply working because you want to, not because you must.

For all good investors, success rarely comes from one perfect market call. It comes from **repeatable habits**—investing regularly, staying disciplined, and thinking long term—so your mindset does the heavy lifting when markets (and life) get noisy. Whether you're early in your career, just starting to earn, or preparing to steward inherited wealth, this three-parts guide lays out practical dos and don'ts to help you navigate investing with confidence.

## Once the 'Why' is clear, start with some personal finance basics

- 1.) **Budgeting – to avoid impulsive overspending.** The 50/30/20 rule (spend 50% of income on needs, 30% on wants, and 20% in savings) may serve as a good starting point.
- 2.) **Pay your future self-first.** Savvy investors don't save what's left after spending. They save a portion of their monthly income as soon as it hits their bank account and spend what's left after saving. For them, saving isn't optional. It's non-negotiable.
- 3.) **Always set aside an emergency fund and have protections in place:** Investments only work well when you're not forced to sell at the worst time, to deal with life's unforeseen circumstances. As a thumb rule, having 6-12 months of monthly expenses in savings gives one enough headroom in case of life events like career breaks, relocation etc. Ensure appropriate insurance covers are in place, especially life insurance - which is a key part of every individual's financial planning and is as important as investing is.
- 4.) **Benefit from the "good debt" and avoid the "bad debt":** Debt is a double-edged sword. Good debt (used to acquire skills, education and assets) can build wealth; bad debt (to fund an extravagant lifestyle for example) can destroy it. The habit is to be deliberate, not casual, about borrowing.

- 5.) **Prioritise financial freedom over appearances:** Focus on acquiring assets and delaying gratification. "Quiet wealth" is built through restraint, living within one's means, and keeping money decisions free of emotion. Spending buys lifestyle today. Saving and investing buy options for tomorrow.

## With the 'Why' clear and basics covered, let's start investing!

- 1.) **Start Early, Start Small - The "snowball" that starts as a snowflake:** Two graduates begin work on the same salary. One sets up a modest monthly investment from day one. The other plans to start "once things settle down". Ten years later, the gap between them isn't intelligence or income—it's time in the market and consistency.

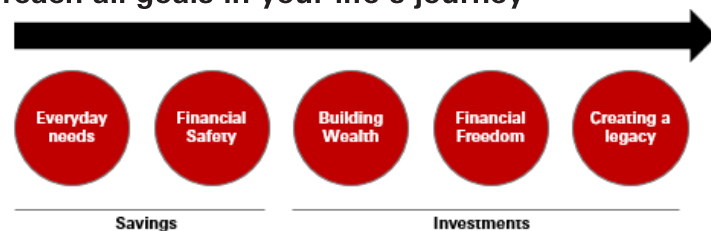
Most of us weren't taught the power of small steps or the value of time as an asset that quietly shrinks as we get older. Used well, time can do a lot of the heavy lifting in both life and investing. Used poorly, it becomes a missed opportunity you can't rewind.

That's why the goal is to build the habit early, even with modest amounts. Regular contributions may feel insignificant at first but given enough time they can become meaningful—because growth compounds on top of growth.

You've probably heard the saying - "A penny saved is a penny earned." Sensible advice—but it's not the finish line for financial literacy. Historically, markets have rewarded patient investors, meaning a penny invested has the potential to become several pennies—or pounds—over the long run. The point isn't to start big; it's to start now, keep it regular, and let compounding turn today's snowflakes into tomorrow's snowball.

## Know the roles saving and investing play...

... because savings alone aren't enough to reach all goals in your life's journey



Source: HSBC Private Bank, June 2026

## 2.) Define risk in terms of “can I stick with it?”

Risk isn't just volatility on a chart—it's the chance you'll abandon the plan at the worst possible time. A portfolio only works if you can stay invested when markets wobble.

One can make risk practical and goal-specific by setting a **maximum acceptable drawdown** for each objective. For example: “*For long-term wealth, I can tolerate a 20–30% fall.*” But for a goal that's only 2–3 years away, you might cap that at “5–10%.” This links volatility to your time horizon and helps you choose investments that match both your timeline and your temperament.

Most importantly, turn the objective into a behavioural commitment: “*I will stay invested through volatility, rebalance on schedule, and avoid reacting to headlines.*” When risk is defined in terms of behaviour—not bravado—you're far more likely to hold the course and reach the goal.

Additionally, quantitative tools can help one assess ahead of time how much one's portfolio could move in a range of circumstances, giving a sense of what to expect.

## 3.) Treat market volatility as an admission fee - a fee that is worth paying:

Market returns have never been free – and they never will be. Like anything valuable, they command a price. In investing - volatility is price of market returns.

The mindset shift is simple but powerful to convince oneself that this price is worth paying - one needs to think of market volatility as a ‘fee’ rather than a ‘fine’ for investing. Developing this kind of mindset lets one stick around and stay invested for long enough. There's no guarantee that you'll always enjoy the ride in the short run. But over the long run, one becomes comfortable with volatility as a market feature, rather than a bug. Learning to stay invested through it—calmly, consistently, and with a plan—is one of the most valuable skills an investor can build.

## 5.) Understand compounding through the doubling lens:

**Compounding is the engine of long-term growth: your returns can generate further returns, and over time that snowballs into meaningful wealth.**

**The challenge is that compounding often feels invisible in the early years—slow, steady, and frankly a bit boring—until it suddenly isn't.**

**At school, compounding is usually introduced as a formula:  $A = P(1 + R)^T$ .** \*

**The maths is manageable, but the real-world impact is hard to grasp at that age, so it stays filed away as theory rather than something that can genuinely change your financial future.**

**A more intuitive way to understand compounding is to think in doublings.**

**Doubling is easy to visualise because it's concrete:**

**1 → 2 → 4 → 8 → 16 → 32 → 64**

**This is also why compounding is easy to underestimate. The first few doublings don't look dramatic. Progress appears modest for a long time.**

**But each doubling is powerful: every new double equals everything that came before it combined.**

**Early doublings build the base; later doublings build the wealth.**

**You don't need dozens of doublings for compounding to matter—four or five can already create a substantial step-change, and beyond that the growth becomes increasingly exponential.**

So, the practical question becomes: How long does a doubling take?

**That's where the Rule of 72 comes in.** We'll discuss concepts like the Rule of 72, Diversification from the NextGen's lens and many more investing concepts in parts 2 & 3 of this series.

## How compounding works in reality:

The power of compounding is often hard to comprehend. We've created the following hypothetical example to help you better understand the benefit of saving early.

### Meet our two investors, Person 1 and Person 2



**Person 1 starts investing \$2000 a year at age 19. She contributes \$2000 a year until she is 27. Her total contribution is \$18,000.**

**Person 2 doesn't start investing until he is 28. he contributes \$2000 a year until he is 65 years old. His total contribution is \$76,000**



Age	Person 1 invests	Year end value	Person 2 invests	Year end value
19	2000	2200	0	0
20	2000	4620	0	0
21	2000	7282	0	0
22	2000	10210	0	0
23	2000	13431	0	0
24	2000	16974	0	0
25	2000	20872	0	0
26	2000	25159	0	0
27	2000	29875	0	0
28	0	32862	2000	2200
29	0	36149	2000	4620
30	0	39763	2000	7282
31	0	43740	2000	10210
32	0	48114	2000	13431
33	0	52925	2000	16974
34	0	58218	2000	20872
35	0	64039	2000	25159
36	0	70443	2000	29875
37	0	77488	2000	35062
38	0	85236	2000	40769
39	0	93760	2000	47045
40	0	103136	2000	53950
41	0	113450	2000	61545
42	0	124795	2000	69899
43	0	137274	2000	79089
44	0	151002	2000	89198
45	0	166102	2000	100318
46	0	182712	2000	112550
47	0	200983	2000	126005
48	0	221081	2000	140805
49	0	243189	2000	157086
50	0	267508	2000	174995
51	0	294259	2000	194694
52	0	323685	2000	216364
53	0	356054	2000	240200
54	0	391659	2000	266420
55	0	430825	2000	295262
56	0	473908	2000	326988
57	0	521298	2000	361887
58	0	573428	2000	400276
59	0	630771	2000	442503
60	0	693848	2000	488953
61	0	763233	2000	540049
62	0	839556	2000	596254
63	0	923512	2000	658079
64	0	1015863	2000	726087
65	0	<b>1117449</b>	2000	<b>800896</b>

### Both earn 10% each year on their investment



#### Who has more money at age 65?

If you guessed Person 1 then you're right! Check out details to the right

This hypothetical example assumes a hypothetical 10% return on investments, and no withdrawals. Rates of return will vary by investor and are not guaranteed. If the rate of return were altered, results would vary from those shown. This example doesn't represent any particular investment, investment strategy and doesn't account for inflation. There may be other material differences between investments that must be considered prior to investing.

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Source: HSBC Private Bank, June 2026

## Great investors also build their 'Personal Growth Playbook'

Why? Because you are your biggest asset. Wherever you are in your wealth building journey - Whether you're building, pivoting, or scaling - when you invest in yourself, you improve your earnings power, decision-making, and long-term outcomes — at any stage of your career.

- 1.) **Build your 'Identity Capital'** – Invest in distinctive, cross-functional skills that expand what you can do next and the value you can create. Skills, habits, and reputation compound over time—building credibility, confidence, and career optionality.

*Early on, explore broadly; Later, double down on strengths and leverage them.*

- 2.) **Build a high-quality 'information diet':** You become what you consume. Cut noise (hot takes, hype cycles, influencer tips). Prefer primary sources and reputable research. Keep a watchlist, review periodically, and write down your decision rules.
- 3.) **Upgrade your earnings power:** Steady, growing income makes investing easier because it fuels consistent saving. Build skills that increase income and stability: communication, negotiation, digital fluency, leadership, and domain expertise.

In 30s/40s, people care more about time constraints, family commitments, burnout risk, and protecting downside. As responsibilities grow, prioritise skills that *scale your impact—not just your hours.*

4.) **Build your network and your 'personal board of advisors':** Surround yourself with thoughtful people—mentors, peers, communities, colleagues. Borrow frameworks, not trades. A strong network improves opportunities, which strengthens your earnings-and-investing engine.

5.) **Leverage the compounding game in life too: discipline + incremental gains:** Most long-term success doesn't come from one hero move — it comes from showing up consistently and letting small improvements stack up over time. Want a lean body? Train regularly. Want to run a marathon? Build stamina day by day. Want a standout career? Keep upskilling, experimenting, and applying what you learn.

Investing works the same way: steady contributions, good habits, and patience can quietly snowball into serious results. And the flip side matters too — small bad habits compound just as powerfully, so consistency cuts both ways.

*Protect your time and energy—consistency is easier when your system is sustainable.*

stay calmer, and align decisions with fundamentals rather than emotion. When conditions change, learners adapt faster: they update views, diversify thoughtfully, and avoid "set-and-forget" assumptions. Over time, learning becomes an edge—fewer costly mistakes, calmer decisions, more confidence.

*Early career: learn broadly. Later: learn selectively and go deeper where it matters.*

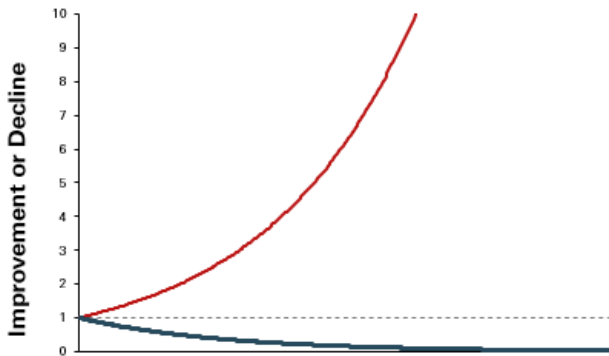
7.) **Build financial literacy (your unfair advantage):** Know the basics that drive outcomes: inflation, interest rates, risk vs return, diversification, fees, and taxes. Understand the main building blocks—cash, bonds, equities, funds/ETFs—and what makes them rise or fall.

Financial literacy doesn't make you a trader; it makes you harder to mislead, better at choosing products, and more consistent under pressure.

### The Power of Tiny Gains – through positive or negative habit stacking

1% better every day  $1.01^{365} = 37.78$

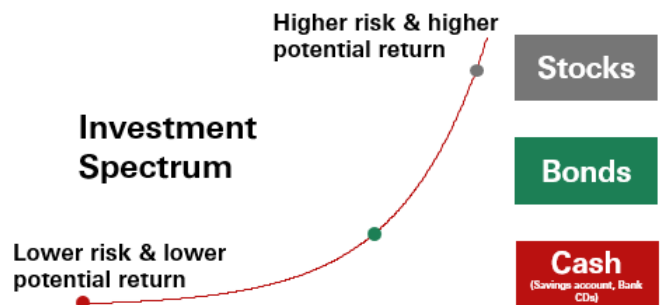
1% worse every day  $0.99^{365} = 0.03$



Source: JamesClear.com, HSBC Private Bank, June 2026

6.) **Build a lifelong learning mindset (a real investing edge):** Lifelong learning sharpens one's ability to spot trends early, connect seemingly unrelated signals, and recognize patterns that repeat across markets and careers – that's a real edge. This mindset translates directly into better investment decisions. You're more likely to understand what you own, ask smarter questions, and separate durable shifts (like new technologies or demographic change) from short-term noise,

### The savings and investing spectrum of risk and returns



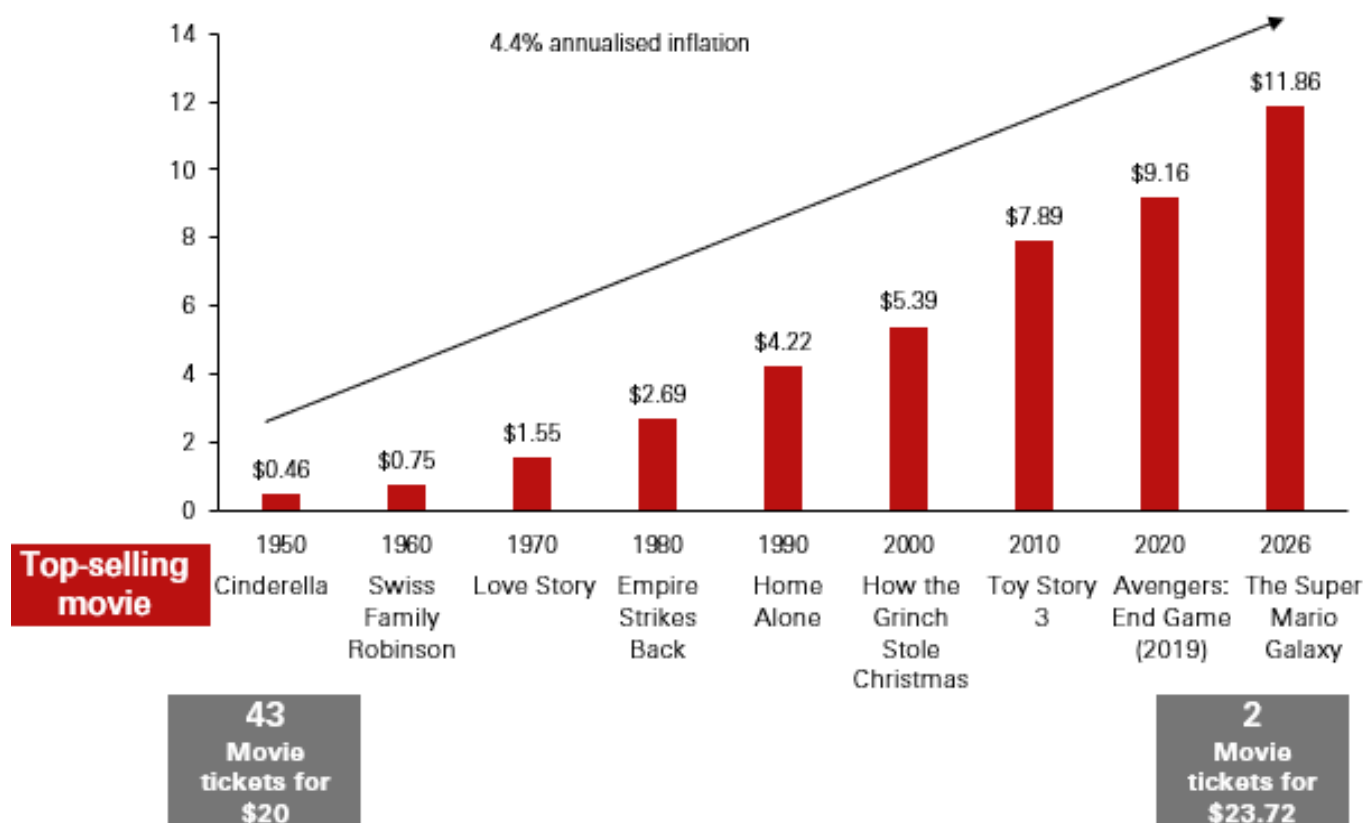
Source: HSBC Private Bank, June 2026

8.) **Understand the big forces of Inflation and Taxes that quietly shape wealth outcomes.** Inflation and taxes aren't always the most exciting topics for new investors but quietly decide real-world results. Inflation erodes purchasing power, especially if money sits in cash for too long. Taxes reduce net returns, and the difference between gross and net compounds over time.

The goal isn't to "beat" them with clever moves—it's to plan for them: invest with a long-term, diversified approach and make decisions based on after-inflation, after-tax outcomes.

## Inflation: The silent roadblock to your goals

Average admission price to movie theatres over the years



Source: HSBC Private Bank, June 2026

### Summary

Investing starts with a simple question: **why?** Because investing is how money becomes wealth—and **wealth creates optionality**: the freedom to choose your home, career, lifestyle, and future on your terms. As Dumbledore put it, *“It’s our choices... far more than our abilities.”*

Investing is one of the few choices that can compound quietly for decades—and for NextGen investors, that matters more than ever in a world of noisier headlines, higher costs, and less linear careers. This report’s core message is simple: the goal isn’t one perfect market call; it’s **building repeatable habits**.

**First, get the basics right:** budget to avoid impulse spending, pay your future self-first, build an emergency fund (and the right insurance) - so you’re not forced to sell at the worst time. Use good debt deliberately and avoid bad debt and prioritise quiet wealth over keeping up appearances.

**Then invest with a plan: Start early and start small.** Make the habit easier to maintain by automating contributions and let cost averaging work through market ups and downs.

**Define risk as “can I stick with it?”** by setting goals-based drawdown limits and committing to stay invested through volatility.

**Remember: volatility is the admission fee** for long-term returns, **not a fine** for doing it wrong. Respect the quiet forces that shape outcomes—**inflation and taxes**—and use tax-efficient structures where available to protect compounding.

**Relearn compounding via the doubling lens.** Early doublings build the base; later doublings build the wealth. Treat Investing like the “subscription” that pays you back—except instead of streaming shows, you’re “streaming” money into your future. The earlier you start, the more episodes (months) you give compounding to run.

**Next, build your “personal growth playbook” — because you are your biggest asset.** Build your ‘Identity Capital’; strengthen financial literacy; improve your information diet (less hype, more signal); grow your earnings power through skills’ acquisition; and build a network of thoughtful people to borrow frameworks, not trades. Small improvements compound in life the same way they do in markets.

**Net-net:** build positive habits, protect the downside, stay the course—and give your money the time it needs to do what it does best: compound into choices.

Do check out Parts 2 & 3 of this *Investor Essentials* series, where we discuss concepts like the Rule of 72; Diversification from the NextGen’s perspective (i.e. how geographic, asset and currency diversification provides resilience and optionality — two things that matter a lot when your plans and location can change quickly) and many more interesting investing concepts.

\*P = Principal

R = Rate of Compound Interest

T = Time

## 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.

HSBC may rely on measurement criteria devised and reported by third party providers or issuers. HSBC does not always conduct its own specific due diligence in relation to measurement criteria. There is no guarantee: (a) that the nature of the ESG / sustainability effect of, or measurement criteria for, an investment will be aligned with any particular investor's sustainability goals; or (b) that the stated level or target level of ESG / sustainability effect will be achieved. ESG and Sustainable investing is an evolving area and new regulations and coverage are being developed which will affect how investments can be categorised or labelled in the future.

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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