

Investor Essentials

Understanding the Building Blocks -The Dos and Don'ts of Investing for a New Investor – Part 2 of 3

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Highlights: In Part 1 of our *Investor Essentials* series, titled *Choices over Brilliance*, we discussed how long-term investing outcomes rarely come from one brilliant pick; they come from repeatable habits that compound quietly. In Part 2, we break down the core building blocks every investor needs. We decode the mental maths behind compounding - using the “doubling” mindset and the Rule of 72. We decipher what drives returns across major asset classes, and why a clear investment strategy and global diversification matter—particularly for NextGen investors living a more borderless life. We then bring it together with a practical portfolio framework for building a diversified core portfolio anchored by strategic asset allocation (SAA), complemented by measured tactical tilts (TAA) and disciplined thematic satellites.

Briefly, here's what this report covers:

- **Compounding basics:** the “doubling” mindset and the Rule of 72 as a quick guide to visualising growth over time.
- **Understanding the investment building blocks:** key asset classes; how they generate returns; and common investor misconceptions.
- **The need for investment strategy & diversification:** Set your goals, time horizon & your risk tolerance before choosing products. Investment strategy keeps you consistent. Diversification builds resilience and isn't just a textbook risk management tool for NextGen investors— it's a practical response to a borderless life, offering resilience & optionality.
- **Importance of taking a global approach & the role of Emerging Markets:** why global diversification matters; and how EMs are a potential source of growth and diversification.
- **Learn the basics of portfolio construction:** The 'core-satellite' portfolio construction approach – where SAA acts as the anchor; TAA provides controlled tilts and the high conviction investment themes act as satellites that complement the core.
- **Look out for part-3 of this report,** where we'll continue this learning journey and cover topics like active vs passive investing; the role of costs & fees; understand the behavioural pitfalls that drive emotional investment decisions, including the hidden cost of overtrading.

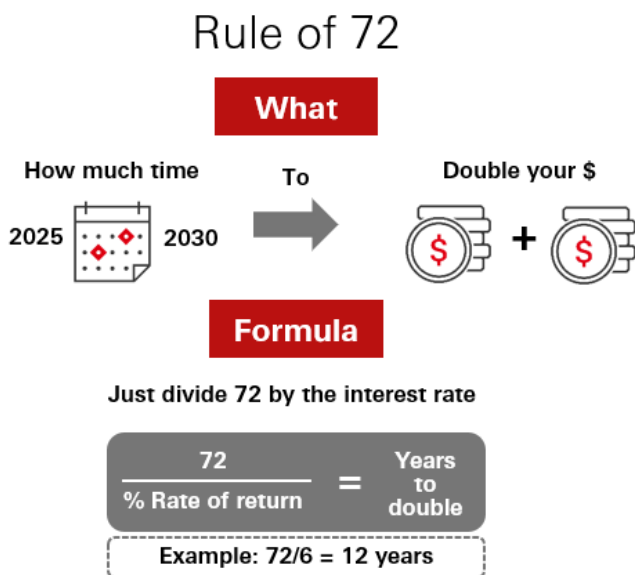
In Part 1, we discussed how long-term results, whether it's investing or in life, rarely come from one brilliant pick. They come from good, repeatable habits and decisions that are sans emotions—especially when markets get noisy.

We discussed how compounding is easiest to grasp through the doubling lens: rather than obsessing over small percentage moves, think of your money progressing in steps—1 → 2 → 4 → 8. It often feels slow at the start because the early doubles don't look dramatic, but each new double equals everything that came before it combined, which is why growth can appear “quiet” for years and then accelerate. The practical question, of course, is - how long does a double take? That's where the Rule of 72 comes in—a simple shortcut for estimating the time it takes an investment to double at a given annual return and vice versa:

1.) The Rule of 72: The Rule of 72 is a mental math formula that calculates the length of time in which an investment would double in value, at a given annual compound interest rate. It's quick and easy to use. One simply needs to divide 72 by the expected interest or growth rate.

To find the time to double, divide 72 by the interest rate. For example, if an investment earns an 8% annual return, it will take about 9 years to double ($72/8 = 9$ years).

To find the required rate of compounding, divide 72 by the number of years ($72/6$ years = 12% rate of compounding).



Source: HSBC Private Bank, June 2026

2.) Understand the building blocks - the basics of asset classes and their return drivers:

Investment types or assets are simply different “wrappers” for putting your money to work, each with its own balance of risk, return potential and access to your cash.

- **Cash** savings and/or money market funds tend to prioritise stability and liquidity and earn interest.
- **Equities** (shares) offer ownership in companies and typically the highest long-term growth potential, but with bigger ups and downs along the way. Returns are mainly driven by earnings growth (some of which may be paid out as dividends) and/or price appreciation.
- **Fixed Income** or bonds are loans to governments or companies that pay regular interest (coupon) payments and aim to return the original amount invested (principal) at a set date (maturity). Bond investors typically aim for steadier income with moderate risk and use fixed income for income generation, capital preservation, and portfolio diversification.
- **Alternatives** (like Real Estate, Hedge Funds or Private Markets) can diversify returns but may be more complex and less liquid.
- **Commodities** are an asset class made up of physical raw materials (like energy, metals, agricultural produce etc.) that are bought and sold. Investors often use commodities for diversification and as a potential inflation hedge (gold acts as good portfolio hedge) but returns can be volatile because prices are driven by supply/demand, geopolitics, weather, and inventory levels.

The key distinctions to keep in mind are what drives each asset class's returns (interest, dividends, price growth), how much values can fluctuate (volatility), how easily you can sell (liquidity), and what you pay in charges—because those basics shape outcomes more than any single “hot” pick.

Beware the common misconceptions. Some examples of common assumptions are:

- a.) Assuming “safer” always means “better”. Cash can feel safe but may lose purchasing power after inflation.

- b.) Believing a well-known brand or a recent strong performance guarantees future returns, and thinking more holdings automatically equals diversification (owning ten similar tech funds is still one big bet).
- c.) Another frequent mix-up is confusing the investment (e.g., equities) with the wrapper or vehicle (e.g., ETF vs mutual fund) - the wrapper affects how you buy, sell and pay fees, but the underlying assets drive most of the risk/return.
- d.) Finally, some investors underestimate liquidity and lock-ups—especially with property-style or alternative products—until they actually need the money.

3.) Understanding the need for an investment strategy (and why diversification isn't optional):

Imagine you're investing without a plan. Markets dip, your feed fills with panic, and suddenly you're making money decisions based on vibes, headlines, and whatever's trending that week. That's not investing — that's reacting.

An investment strategy is your clear, repeatable game plan. It's how you decide what to do before the noise hits — so you're not improvising at the worst possible moment. A well-defined investment strategy turns investing from a series of guesses into a disciplined process you can stick with, as markets—and life—change. It essentially acts like a satnav for any investor - keeps decisions anchored to long-term objectives rather than short-term market noise, helps choose suitable products with confidence, and reduces the chance of costly "in-the-moment" moves such as chasing recent winners or selling after a fall.

Let's lay out the steps to devising an investment strategy that's right for you:

Step 1: Match the investment to the job (your goals). Start with three questions:

- **What's my investment goal?** Growth (build wealth), income (generate cash flow), or preservation (protect what you've got).
- **Time Horizon - When do I need the money?** Shorter timelines usually need more stability and access. Longer timelines can typically handle more ups and downs because you've got time to recover. Therefore, riskier investments may be more appropriate because they can ride out market swings.

- **How much volatility can I live with?** Not in theory — in real life. If a 20% drop would make you sell, your portfolio is too aggressive (even if it looks great on paper).

Step 2: Build simple first, add complexity only if it earns its keep: A practical starting point is a broad, diversified basic portfolio — for example:

- A global equity fund for long-term growth, plus
- Bonds/cash for stability (or a multi-asset fund that blends both).
- Then only add specialist exposures when they solve a specific need. Complexity isn't a badge of honour — it's a cost unless it pays rent.

Step 3: Set your investment strategy rules

Your strategy should include a few basic rules: how much you'll contribute, when you'll rebalance, and what would trigger a change (hint: not headlines). That's how investing becomes a process — not a series of guesses.

Another key tenet of building a sound investment strategy is diversification, which helps make your portfolio more resilient to sudden market moves.

Diversification - the NextGen version (built for a borderless life): If you're NextGen, diversification isn't just a textbook risk tool — it's a practical response to how you live. You might study in one country, work for a company in another, get paid in a different currency, and eventually build a life somewhere else. If all your wealth is tied to one market or one currency, you can end up with a quiet mismatch: your money is stuck in one place while your life isn't.

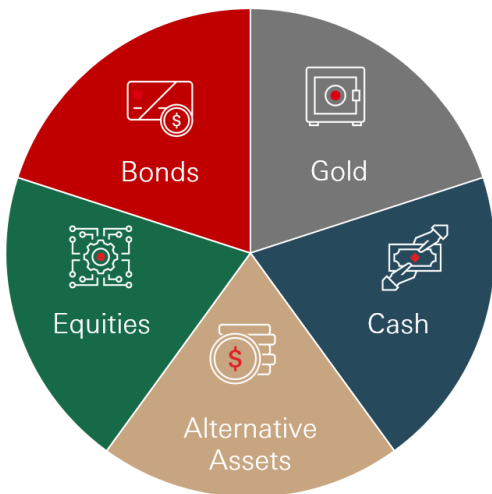
Diversification turns wealth from 'permanence' into mobility, resilience & choice - spreading investments across regions, sectors and asset types helps reduce the impact of any one country's political shifts, regulatory changes, tax surprises, inflation spikes, or market downturns.

In other words, diversification buys resilience and optionality — two things that matter a lot when your plans (and location) can change quickly. If one region becomes less attractive to live/work/invest in, a globally diversified portfolio is easier to "reposition" without having to rebuild from scratch. It also fits how many Millennials and Gen Z build wealth today - through a mix of platforms, income streams, and newer asset types, often alongside more frequent career moves. A diversified portfolio can help smooth the ride when markets reprice fast (which they do), and when "internet-speed politics" or policy changes hit specific geographies or industries.

What diversification actually does (in plain English):

- **Regional diversification protects from “single-country shock” risk:** A recession, property slump, banking stress, or sector downturn in one region won’t hit the whole portfolio to the same extent if you also hold assets in other markets.
- **Limits political and regulatory risk:** Elections, tax changes, capital controls, sanctions — you’re not over-exposed to one rulebook.
- **Manages currency exposure:** If your future spending is global, your assets shouldn’t all depend on one currency staying strong.
- **It avoids hidden concentration or over-reliance on one market structure:** Some markets are more concentrated (e.g., dominated by a few sectors or firms). Global exposure spreads that risk.

Diversification provides resilience to investment portfolios



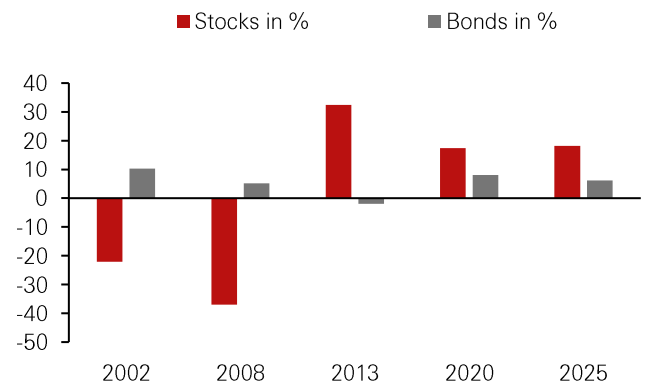
Source: HSBC Private Bank, June 2026

From NextGen’s perspective, the “do” is to diversify intentionally - start with broad, low-cost global exposure as your core, then add bonds/cash for stability and consider currency/geographic spread to build resilience.

The “don’t” is to confuse diversification with owning lots of investments — owning lots of similar tech names, multiple crypto tokens, or several funds that all track the same market isn’t real diversification - it’s just a crowded room with one exit.

Potential benefits of diversification

Performance of stocks and bonds in different years. While the stocks-bonds' correlation varies over time, often when one asset class zigs, the other one zags.



Source: HSBC Private Bank, June 2026. Past performance is not a reliable indicator of future performance.

Now, go beyond your region and take a global approach to investing: We believe global diversification is as important as diversification of various asset classes. A global approach helps investors avoid turning a portfolio into a single country “all-in” position by default. When leadership changes, a home-biased portfolio can lag for years. But since no single diversifier is perfect, we diversify our diversifiers: What new investors need to understand is that different regions lead at different times, driven by distinct growth paths, inflation dynamics, policy choices and sector make-up. When you spread exposure across markets, you’re not relying on one economy, one currency, or one market narrative to keep delivering. That broader opportunity set can also reduce portfolio volatility because regional returns don’t move in lockstep—so weakness in one area can be offset by resilience elsewhere—while keeping you invested in long-term growth themes.

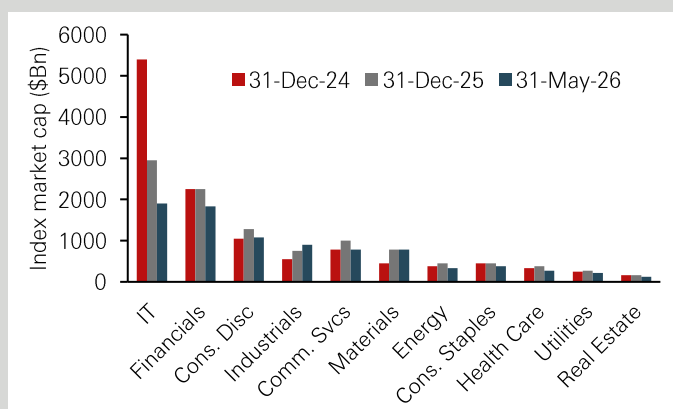
What role do Emerging Markets (EM) play in adopting this global investment approach?

Emerging Markets are a good example of why global diversification can be both a risk-management tool and an opportunity engine. After a long period in which US equities dominated global performance, EM equities can diversify regional concentration risk and play a distinct role in today's portfolios by broadening the sources of return beyond a US-led equity cycle and by adding exposure to different growth and inflation regimes.

Emerging markets can also add a different source of return to portfolios at a time when supply chains are being re-shaped and access to strategic commodities is back in focus. With globalisation giving way to reshoring and resurgent resource nationalism, many EM economies sit closer to the production of energy, metals and other inputs that underpin large-scale investment cycles, including the infrastructure and data centre build-out linked to artificial intelligence. EM economies that supply critical raw materials may offer fresh alpha opportunities—particularly where demand is being pulled forward by structural themes such as the AI and Energy & Resource security.

But EM exposure isn't just a commodities play: As per Bloomberg data, MSCI EM equity index now has a substantial technology weighting (around 40% and growing), alongside meaningful exposure to energy, materials and utilities. Asian economies like China & South Korea provide exposure to tech hardware, semiconductor and memory names - all essential components of the AI buildout story.

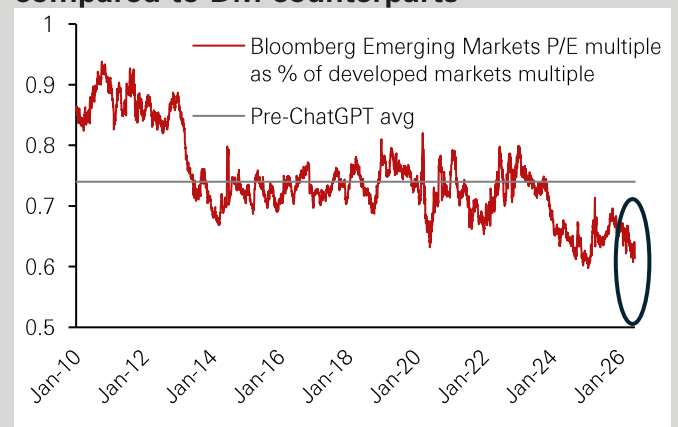
MSCI EM sector market cap in 2026 versus last two years



Source: Bloomberg Intelligence, HSBC Private Bank, June 2026

EM Valuations also look supportive: Despite the decade-long dominance of US equities (and the “Magnificent-7” in particular), EM equities have outperformed on a one-year trailing basis, suggesting that leadership can rotate and that diversified regional exposure may improve resilience when the market narrative changes. As the below chart shows, the Bloomberg Emerging Markets Large & Mid Cap Index trades at about 64% of its developed-market equivalent (versus an average of 74% in the decade prior to ChatGPT), suggesting investors may be paying materially less for comparable exposure to global growth and technology supply chains.

Despite the rally, EM equities are still on sale compared to DM counterparts



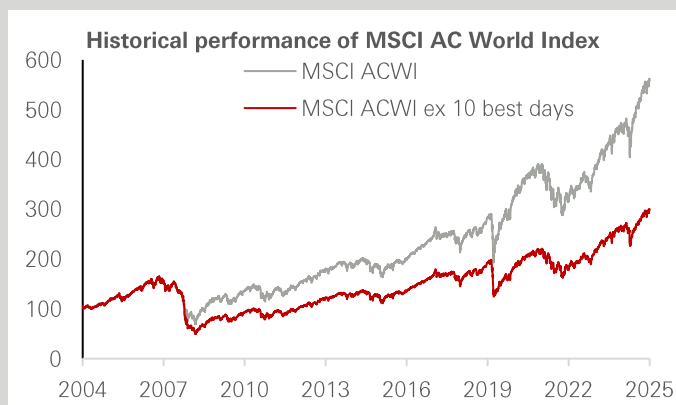
Source: Bloomberg, HSBC Private Bank, June 2026

But implementation matters: rather than treating EM as a single, undifferentiated bucket, it's important to optimise exposure by applying quality and momentum screens—approaches that have historically delivered greater outperformance with less volatility than unscreened alternatives. In the new world order, EMs can also be differentiated based on their exposure to AI – i.e. those benefitting from the buildout of the AI ecosystem and AI adoption vs those who are laggards. Similarly, in an increasingly fragmented world, those leading on energy security and resources' independence front are likely to fare better than energy and resources importers.

For EM bonds, the portfolio role is typically complementary—potentially enhancing diversification and income—but investors should balance the opportunity set against well-known EM risks (including currency moves, liquidity constraints, and political/regulatory uncertainty) and size allocations accordingly within a broader, diversified framework.

4.) Learn the basics of portfolio construction - the 'Core-Satellite' approach: A diversified core portfolio is the engine room - it's designed to deliver resilient, all-weather exposure across regions, sectors and styles, so long-term outcomes aren't hostage to any single market, factor or narrative. Our core-satellite approach starts with Strategic Asset Allocation (**SAA**) as the anchor: a diversified long-term mix designed to meet the client's objectives and risk tolerance across market cycles. We then use Tactical Asset Allocation (**TAA**) to navigate nearer-term market moves by making measured, time-bound tilts around the SAA—seeking to manage risk and capture opportunities as conditions change (for example, rotating exposure when leadership shifts or when markets reprice themes quickly).

Without SAA as an anchor, market timing often results in missed opportunities



Source: HSBC Private Bank, June 2026. Past performance is not a reliable indicator of future performance.

Satellites can include **high-conviction themes** implemented with disciplined sizing and clear exit criteria, so the portfolio stays anchored to long-term strategy while remaining agile in the short run. Through the high-conviction themes, investors can express views on structural shifts (like investing in the AI ecosystem, energy and resource security etc.) without turning the whole portfolio into a concentrated bet. To diversify effectively within a thematic investment, we use multiple direct holdings (a focus list or a basket of stocks) or a well-constructed fund/ETF to reduce single-name risk, check for hidden concentration (e.g., the same mega-caps dominating), and rebalance as valuations and leadership rotate. The goal is to keep exposure to the theme's long-term drivers while reducing the risk that one stock, one

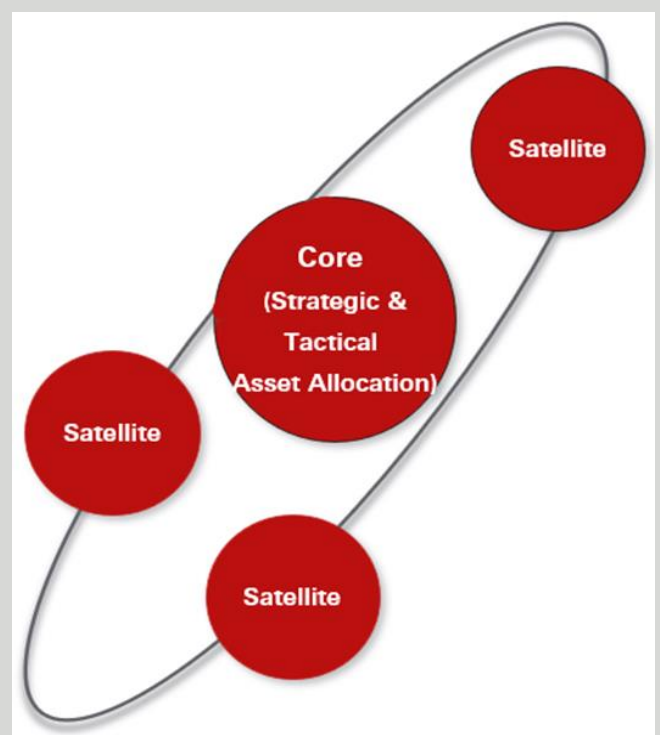
sub-sector, or one country determines the outcome.

Core/Satellite portfolio approach = structured investment decisions

*Asset allocation is the primary determinant of the variation in total portfolio return.

*Choosing the appropriate core allocation is the key starting point for portfolio construction.

* Satellites are thematic overlays to the core



Source: HSBC Private Bank, June 2026

Satellites capture cyclical and structural opportunities, but their risks need to be managed: While the core provides stability and rebalancing discipline, satellites offer exposure to cyclical and structural shifts & their upside potential. But investors also need to be aware of the pitfalls of thematic investing. Themes can become overcrowded quickly. Even if the theme is real, leadership rotates fast (for e.g. multiple AI sub-themes have taken turns in leading the market recently – from hyperscalers to semiconductors & memory names). Without guidance, investors can end up chasing yesterday's winners and selling tomorrow's. Themes can also carry currency, policy, governance and geopolitical risks depending on where the exposure sits, so one needs to be mindful.

Summary

Investing isn't a one-off decision—it's a repeatable system. This paper (Part 2 of our *Investor Essentials* series) breaks down the core building blocks every investor needs to build long-term wealth with more confidence and less noise.

We started this write-up with the mental maths of compounding—using the “doubling” mindset and the Rule of 72 to make it more intuitive and less abstract.

We then unpacked the major asset classes (cash, bonds, equities, alternatives and commodities) and what actually drives their returns, alongside common misconceptions that can quietly derail outcomes.

From there, the focus shifted to having a rules-based investment process: setting clear goals, a time horizon, a real-world risk tolerance, and using an investment strategy to stay disciplined when markets (and headlines) get loud.

We then looked at diversification through a NextGen lens—designed for a borderless life across regions, sectors, asset types and currencies—so your portfolio isn't accidentally a single-country or single-currency bet. The role Emerging Markets can now play as both a diversification tool and an opportunity set is noteworthy.

Finally, we brought it all together with a practical portfolio framework: a globally diversified core anchored by Strategic Asset Allocation (SAA), complemented by measured Tactical Asset Allocation (TAA) tilts and disciplined thematic satellites.

We hope you'll use these building blocks to create a well-diversified investment portfolio that sets you on the path of long-term wealth creation and helps you fulfil all your life goals.

Look out for Part 3 of our *Investor Essentials* series, where we'll unpack active vs passive investing, why costs and fees matter more than most people think, and the behavioural traps behind emotional decisions—ending with the hidden cost of overtrading.

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.

Today we finance a number of industries that significantly contribute to greenhouse gas emissions. We have a strategy to help our customers to reduce their emissions and to reduce our own. For more information, visit www.hsbc.com/sustainability.

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