

Investor FAQs

Cost Changes and Deferred Redemption



Changes to Fund Charges

Q Why is HSBC Global Asset Management (UK) Ltd "AMEU" making changes to the charging structures and the overall costs of its Funds?

A We have been carefully reviewing our entire charging structure as part of our overall assessment of value to ensure that our funds deliver the good value our customers expect from us. We want to make sure that our funds are competitively priced, our charges are clear and easy to understand and that investors in our funds can benefit from any economies of scale that we can achieve.

From industry research we have learnt that some investors find fund charges difficult to understand. Therefore, we will be simplifying the charges that are paid to us as the Authorised Corporate Director of the funds as explained in the notification letters we have issued. We intend to do this by consolidating the Registration Fee and the Annual Management Charge into one charge which will continue to be called the Annual Management Charge. The Annual Management Charge will be included in the quoted 'Ongoing Charges Figure' (OCF) as it is currently.

Current Fees

Registration Fees

Registration fees are paid to us, as Authorised Corporate Director, to cover the cost of maintaining the register of Fund shareholders. The Registration Fee includes: fees and expenses in respect of maintaining the shareholder register; registrar fees; expenses incurred in distributing income to Shareholders; costs of convening and holding Shareholder meetings. We are consolidating the Registration Fee and the Annual Management Charge into one charge which means that we will be completely removing the Registration Fee.

Annual Management Charge (AMC)

This is a charge paid by the Fund to HSBC to cover the cost of running the Fund. It includes: the fee for the cost of investment management including research as applicable, and some

administration charges which, going forward, will include the cost of maintaining the register of fund shareholders.

Although the Registration Fee and the Annual Management Charges will be combined, the revised fee will still be known as the Annual Management Charge.

Ongoing Charges Figure (OCF)

This is the total of charges paid by the Fund, excluding portfolio transaction costs. The OCF includes the Annual Management Charge and currently includes the Registration Fee, as well as certain other operational costs such as depositary and custodian fees. From 1 October 2020 it will include the revised Annual Management Charge and the other operational costs (such as depositary and custodian fees) but from that date it will also include the fund administration charges for most funds where applicable. For the Global Strategy Portfolios and Global Sustainable Portfolios the fund administration charges will apply from 2 November 2020.

Q Why are the current OCFs quoted in the letter dated 2019?

A OCFs are generally recalculated twice per year in line with a Fund's annual and interim accounting dates and are published with the report and accounts. The current OCFs quoted in the letter were the latest available published OCFs at the time the review of charges was undertaken and were the OCFs published on the Key Investor Information Documents at the time notice of the changes was issued.

Q Why does the letter say the OCFs are variable and may change in future?

A The OCF includes certain operational expenses that are applied to the Funds such as depositary fees and custody charges. Some of these operational expenses vary over time depending on factors such as the value of the Funds and the financial markets in which the Funds invest. When the OCFs are recalculated the variable nature of these expenses means that the OCF itself may vary.

Q Why is the cost for some funds increasing and not others?

A The cost for some funds is increasing because we are also changing the way that fund administration charges, e.g. fees for valuing the assets in the Fund, are paid. These charges are currently paid out of the Annual Management Charge. This means that in the past they have been paid by us on behalf of the Fund but, going forward, we will charge these directly to the Fund. This change will result in an increase to the expenses payable out of the Fund of up to 0.02% (currently 0.019%) which, in monetary terms is currently 19 pence per £1,000 invested. However, any future savings we are able to negotiate with our operational partner providing this service will be passed on to investors by automatically reducing the fund administration charge.

Although the fund administration charge will in future be charged directly to the funds, excluding Index Tracker Funds, we also considered the Registration Fees and Annual Management Charge on a fund by fund basis. For many funds, there will be a reduction in the revised overall Annual Management Charge.

In some instances, the addition of the fund administration charge will result in a small increase in the Ongoing Charges Figure.

Q Why has HSBC paid some of the administration fees in the past but are now passing these costs onto clients?

A The administration fees previously formed part of the Annual Management Charge, meaning they were not visible to investors. With our increased focus on delivering value we are aiming to make the charges more transparent. In making this change it also means that any future savings we are able to negotiate with our operational partner for providing fund administration will be passed on to investors by automatically reducing the fund administration charge.

Q Why aren't the fund administration fees being applied to the index tracker funds?

A The fund administration fees that are charged in respect of the index tracker funds will continue to be paid by us and not by the funds. As part of our overall review of the charges earlier this year we removed any Registration Fees that applied to the index tracker funds when considering the overall ability of these funds to deliver good value to investors as well as ensuring that they remain competitively priced. The index tracker funds are passively managed and have lower charges compared to actively managed funds. The funds aim to track the performance of an index and any charges that are applied to the fund will affect the tracking difference (i.e. the difference in returns between the fund and the index). Given the changes we had already made, we concluded that it was not appropriate to make further changes to the charging structure for these funds.

Q The letter says the fund administration fees are charged at up to 0.02%. How is the fee rate determined?

A The fee applicable is a tiered fee which is based on the overall value of assets of all chargeable share classes across our UK fund range. Full details of the tiered fee structure are available in the Fund prospectus. This also means that, as the value of the funds we manage across our UK fund range increases, any savings will be passed on to the funds for the benefit of investors.

Q Why has HSBC delayed the application of the fund administration fees to the Global Strategy Portfolios and Global Sustainable Portfolios?

A HSBC became aware that investors holding these funds through some platforms and other wrappers may not have received a reasonable period of notice for the changes from the distributors of those services. As the changes to the charges for these funds result in an overall increase to the OCF we felt it was appropriate to delay the application of the fund administration fees until 2 November 2020. This effectively means that investors in these funds will receive a longer period of notice for the changes.

Q Why isn't HSBC changing its charging structure to all-in fees?

A We considered all-in fees but we feel these do not always represent a fair exchange of value for our investors. If the all-in fee is set at a higher rate than the actual costs that a fund bears then investors may be subjected to higher charges than are necessary. Conversely, if the all-in fee is set at a rate that is lower than the actual fees that the fund has to bear, then the all-in fee may not be sufficient to cover the costs of the relevant Fund. While some firms may charge an all-in fee, in some cases this does not always mean that there are no further fees to pay since some will still levy other charges, for example to cover transaction costs.

Q Will you change your charges again in the future?

A While these changes follow a recent review of our charges linked to our wider assessment of fund value, we have always continually monitored and assessed the value our funds provide to investors. We will therefore continue to monitor the costs charged to our investors and may make changes in future but any such changes will only be made where we feel the costs charged are not representing good value to our fund investors.

FCA Value Assessment

Q Are these changes linked to the FCA Value Assessment?

A In 2017/18 the Financial Conduct Authority (FCA), undertook the 'Asset Management Market Study' which aimed to determine how asset managers are competing to deliver value to both retail and institutional investors. The market study found that:

- ◆ Price competition is weaker in some areas of the industry;
- ◆ Investors are not always clear what the objectives of funds are;
- ◆ Fund performance isn't always reported against an appropriate benchmark; and
- ◆ In some instances, benchmarks are inconsistent. Where funds have more than one benchmark the FCA concluded that funds should report against their most ambitious target.

The FCA has acted to tackle the issues found and in April 2018 introduced new rules which require fund managers to publish an annual Value Assessment which clearly articulates how the manager has provided investors value for money having given consideration to a range of factors, including cost, performance and service.

HSBC's review of the value we provide to our investors has therefore included a thorough review of our charging structures and the changes are intended to simplify how our fees are presented to investors.

While the changes we are making follow a recent review of our charges linked to our wider assessment of fund value, we continually monitor and assess the value our funds provide to investors and this will not change.

Our Value Assessments for the year ending 30th June 2020 will be published on the 31st October.

Deferred Redemption

Q Why is HSBC introducing the ability to defer redemptions?

A When investors sell (or 'redeem') their shares, the Fund needs to sell assets to create cash in order to pay those investors. If a large number of requests for sales and switches out of a fund are made on the same dealing day, it means a larger proportion of the Fund's assets will need to be sold, which can affect the price the fund gets for those assets in the market. If the Fund is able to defer large sales, it gives the investment managers more time to sell assets to meet the redemption which, in turn, helps to protect the Fund and its remaining investors.

Q Will my proceeds be delayed when redemptions are deferred?

A Yes. If we need to defer redemptions on a particular dealing day then all redemption instructions received on that day will be deferred and payment will be made on the settlement terms set out in the prospectus.

General Questions

Q Will these changes affect the number of shares investors hold or their value?

A No. The costs that we charge to investors have no impact on the number of shares our investors hold or the immediate value of those shares.

Q What are the options if I don't like the changes?

A The purpose of giving 60 days' notice is to allow you time to decide if you wish to accept the changes. If you are unsure how the changes affect you then you may wish to consult with a financial adviser. If you are unhappy with the changes you are able to redeem your investment before the effective date, in which case the changes will not apply to you.

Platform Questions

Q Will HSBC's distribution agreements be updated?

A We do not anticipate making any changes to the agreements but will be in touch with distributors directly if any are necessary.

Q Will HSBC issue a new European MiFID Template (EMT)/European PRIIPS Template (EPT)?

A We will reflect the revised charges in templates such as the EMT/EPT at the first refresh after the effective date.

Q When does HSBC expect data vendors to reflect the new charging structures?

A We will update documents such as the prospectus and KIID as soon as the charges become effective and these will be distributed to data vendors such as Morningstar and Financial Express (we would expect the data vendors to make the revised documents available in line with their normal Service Level Agreement).

Important Information

The views expressed in this document were held at the time of preparation and are subject to change without notice. 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. Where overseas investments are held the rate of currency exchange may also cause the value of such investments to fluctuate. Investments in emerging markets are by their nature higher risk and potentially more volatile than those inherent in some established markets. Stock market investments should be viewed as a medium to long term investment and should be held for at least five years. Any forecast, projection or target where provided is indicative only and is not guaranteed in any way. HSBC Global Asset Management (UK) Limited accepts no liability for any failure to meet such forecast, projection or target. Any performance information shown refers to the past and should not be seen as an indication of future returns. To help improve our service and in the interests of security we may record and/or monitor your communication with us. HSBC Global Asset Management (UK) Limited provides information to Institutions, Professional Advisers and their clients on the investment products and services of the HSBC Group. This document is approved for issue in the UK by HSBC Global Asset Management (UK) Limited who are authorised and regulated by the Financial Conduct Authority. Copyright © HSBC Global Asset Management (UK) Limited 2020. All rights reserved. ED-2017 EXP 30/04/2021