Liquidity risk management mechanisms

March 2020

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All sub-funds of the HSBC GIF (HSBC GLOBAL INVESTMENT FUNDS) SICAV are impacted by these liquidity risk management mechanisms.

Please note that some of the HSBC GIF sub-funds could not be authorized for distribution in your country. We recommend you make the necessary verifications before taking any investment decisions.

HSBC
Global Asset
Management

NAV adjustment mechanism

Swing-pricing

What is it?

- Swing pricing is a price adjustment mechanism aimed at protecting a fund's unit holders, or shareholders, against transaction costs incurred by the fund due to new subscriptions or new redemptions. These transaction costs include, but are not limited to broker fees (for equities), bid/offer spreads (for fixed income products), financial transaction taxes, transaction fees levied by the depositary, etc...
- In the absence of a price adjustment mechanism, these transaction costs would be charged to all shareholders, instead of only to the client(s) who have subscribed for or redeemed units.

How does it work?

- "Swing pricing" consists in making investors who subscribe or sell units, or shares, bear the costs linked to transactions carried out on the assets by adjusting the net asset value, upwards if the net balance of the flows received is positive and conversely, downwards if this balance is negative. The magnitude of the adjustment is correlated to the amount of transaction costs involved.
- For the same UCI, the upward or downward adjustments are not necessarily symmetrical. However, whatever the direction of the swing, upwards or downwards, all unit holders (entering, leaving or remaining in the fund) trade at the same price (net asset value).
- The price adjustment mechanism has three main components:
  - A threshold rate (%)
  - A buy adjustment rate
  - A sell adjustment rate (2%)
- These rates may be different for each portfolio.

When and how is the fund's NAV adjusted?

- The adjustment is triggered if, on a given valuation day, the difference between subscriptions and redemptions, expressed as a% of the total net assets of the UCI, is greater than the predetermined threshold. In this case, the net asset value of the UCI is adjusted, up or down, using the rates provided for this purpose (on purchase if the net cash balance received is positive, on sale otherwise)
- An example:
  - Subscriptions: USD 10m
  - Redemptions: USD 8m
  - Subscriptions - Redemptions: USD 2m (net subscriptions); Fund's total net assets: USD 100

  In this example, the difference between subscriptions and redemptions (USD 2m) is higher than the threshold amount (1% of USD 100m, which is USD 1m). Therefore, the fund's net asset value is adjusted upwards using the buy adjustment rate.

How are thresholds and adjustment rates revised?

- Thresholds and adjustment rates are revised periodically. However, they may also be adjusted as needed or in the case of exceptional market circumstances.

Conclusion

- The NAV adjustment mechanism is intended solely to protect holders of units or shares in the HSBC fund range. When investors are affected by a price adjustment due to the variation in the net balance of subscriptions / redemptions, they pay the transaction costs. They would therefore have to bear these costs if they decided to invest directly.

Source: HSBC Global Asset Management, March 2020.
The examples provided in this document are for illustrative purposes only and offer no indication as to the real levels of thresholds that may be applied by the investment management company.

Redemption cap mechanism

Gates

What is it?

- If a fund faces exceptional levels of redemptions, particularly if market liquidity is thin, the fund manager may be unable to sell enough assets to meet the requests on acceptable terms. In this case, having demonstrated that exceptional circumstances and the interests of share/unitholders or the public demand such steps, the investment management company may cap redemptions to avoid having to suspend redemptions (if market liquidity permits).
- These “gates” allow redemption requests to be staggered across several NAV dates as necessary when they exceed a certain level, which is objectively determined.

How does it work?

- The threshold at which the redemption gate kicks in at a particular centralisation date is based on the ratio of redemption orders (less subscription orders) to net assets at the fund’s last valuation date. The triggering of the redemption gate at a particular NAV will apply similarly to all clients who have asked to redeem units to ensure equitable treatment of unitholders and avoid any potential conflict of interest. Unmet redemption orders will be automatically carried over to the next centralisation date. On this new date, these orders will not be given any special priority over new orders.

When and how is the fund's NAV adjusted?

- The capping of redemption orders is a temporary measure. Its maximum duration will depend on the frequency with which a NAV is calculated for the investment strategy and the liquidity of the assets in the portfolios under management.
- On the NAV calculation day (generally D+1), unitholders and shareholders will be notified via a special communication posted on the HSBC Global Asset Management (France) website.
- For example:

  If at the centralisation date, redemption orders (net of subscriptions) make up 10% of the fund’s net assets and the investment management company decides to activate the redemption gate mechanism at 5% of the fund’s net assets.

  - Two days after the NAV date, each investor having submitted a redemption order will receive a settlement of 50% (i.e. 5% divided by 10%) of the total redemption amount they requested.
  - The remaining 50% will be carried over to the following NAV date.

  If, on the following centralisation date, redemption orders net of subscriptions (new orders + orders carried over) represent 50% of fund net assets and the investment management company decides to cap redemptions at 40%, all orders, including previously carried over orders, will be 80% met (40% divided by 50%).

Conclusion

- The redemption capping mechanism is intended solely to protect holders of units or shares in the HSBC fund range. When investors find that their redemptions are capped, this means that the investment management company considers market liquidity is too thin to fill the sell orders required by the fund outflow at a price close to market price.

Source: HSBC Global Asset Management, March 2020.
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Any third party information has been obtained from sources we believe to be reliable, but which we have not independently verified. The capital is not guaranteed.

Before subscription, investors should refer to the Key Investor Information Document (KIID) of the fund as well as its complete prospectus available on request from HSBC Global Asset Management, the centralizing agent, the financial department or the usual representative. For more detailed information on the risks associated with this fund, investors should refer to the prospectus of the fund.

The fund uses the swing principle calculation method which determines the net asset value of the fund. Swing pricing allows investment funds to pay the daily transaction costs arising from subscription and redemptions by incoming and outgoing investors. The aim of swing pricing is to reduce the dilution effect generated when, for example, major redemptions in a fund force its manager to sell the underlying assets of the fund. These sales of assets generate transaction costs and taxes, also significant, which impact the value of the fund and all its investors.

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