WPB Strategic Asset Allocation Booklet

For Premier Elite

As of November 2023

HSBC

Table of contents

Introduction

The purpose of this document, WPB Strategic Asset Allocation booklet, is to set out our investment framework and asset allocation strategies applicable to the HSBC Prism Advisory

This document describes:

- Our investment framework and how we use asset allocation strategies to create reference portfolios to achieve certain risk and/ or return targets ("reference portfolios");
- How we assess the portfolio risk attached to each reference portfolio, enabling us to provide you with investment recommendations under the HSBC Prism Advisory;
- The different references portfolio available to you under HSBC Prism Advisory depending on your tolerance to investment risk and your Customer Risk Profile (e.g. your assessed Risk Tolerance as set out in your Risk Profile Questionnaire).

The HSBC Prism Advisory is governed by the HSBC Prism Advisory Service Agreement which you should read carefully together with this document and the HSBC Prism Advisory Client Investment Profiler ("CIP"). Terms of the service agreement prevail if there is any inconsistency with this document and unless otherwise defined here, defined terms used in this document shall have the same meaning as those defined in the service agreement.

HSBC Prism Advisory investment framework

We believe asset allocation is an important part of any successful investment strategy. Therefore, central to our investment approach is the HSBC WPB Strategic Asset Allocation ("WPB SAA"). The WPB SAA is our asset allocation strategies to achieve certain risk and/or return targets based on principles of optimization, diversification, long-term forecasts and rebalancing and represents our compass for long-term investing.

The WPB SAA determines what we believe is the optimal asset class mix for an investor in the long term, based on their level of risk appetite. For each customer risk profile from Very Cautious (risk profile 1) to Speculative (risk profile 5), we have constructed a reference portfolio which sets out the asset allocation percentages and the portfolio risk profile we consider are appropriate for that customer risk profile. For example, if you have a Customer Risk Profile "Balanced", a reference portfolio based on the WPB SAA with a risk profile "Balanced – risk profile 3"will be appropriate for you.

Based on portfolio risk metrics, we assign to each portfolio risk profile a recommended risk band (also referred to as "reference volatility band"; as updated from time to time). Your Portfolio should be within the recommended risk band of your Reference Portfolio to remain suitable for your risk profile.

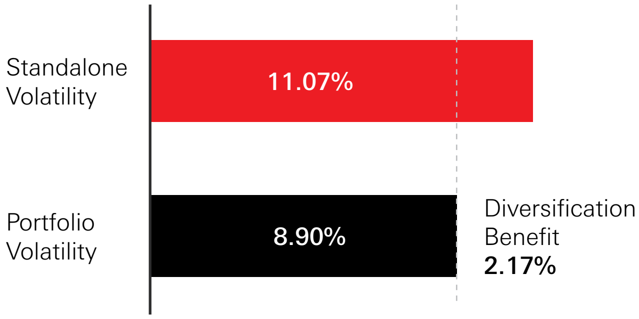
We review the underlying asset allocation percentages of each of our reference portfolios on a periodic basis to ensure that they continue to reflect our medium to long term investment outlook. Where appropriate, we may make changes to the underlying asset allocation, for example, an increase in the global equity allocation and a decrease in the fixed income allocation. Where we make such changes we will notify you by publishing the updated reference portfolio allocations on our public website page dedicated to the HSBC Prism Advisory at https://www.hsbc.com.hk/wealth-management/hsbc-prism-advisory/ , effective immediately; after such changes are made, if we provide investment recommendations, these will be based on the revised WPB SAA applicable to your Reference Portfolio.

Your Portfolio will not automatically change as a result of changes to the underlying asset allocations of our reference portfolios.

Illustrative benefits of having a well-diversified portfolio

Diversification is an estimate of the benefit of investing in different asset classes across many securities in an attempt to reduce the overall portfolio volatility. The measure is an estimate of the difference in the overall standalone volatility of all assets in a portfolio without correlations between risk factors (e.g. equity risk, interest rate risk, credit risk, etc) versus the total portfolio volatility with correlations between risk factors taken into account.

In the illustrative example, the benefit of diversification means the volatility estimation of 8.90% is lower than the simple combination of all of the portfolio holdings, which would imply a volatility of 11.07%.



Source: Numbers used are just for illustrative purpose only, based on a hypothetical portfolio. Please refer to the important notes section at the end of this booklet for further details

Portfolio risk

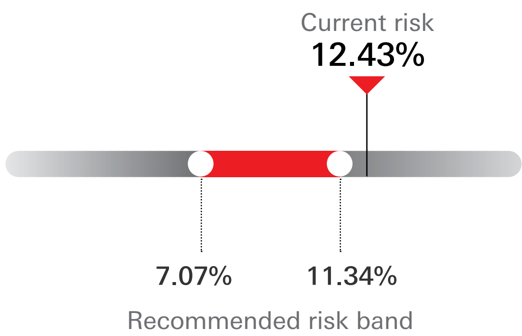
We assess portfolio risk, based on all of your Portfolio investment holdings. Quantifying the overall portfolio risk gives you an indicator of the overall risk of the Portfolio, expressed as a percentage (e.g. % of expected volatility). This will give you information on the dispersion or variability of Portfolio returns.

The expected volatility is calculated based on the overall dispersion of returns of the risk factors applied to the portfolio, observed over a period starting from March 2008 until to the present.

Based on these portfolio risk metrics, we assign to each portfolio risk profile a recommended risk band. Your Portfolio should be within the recommended risk band of your Reference Portfolio to remain suitable.

To ensure that the risk bands continue to be a reliable indicator of portfolio risk, they are periodically re-calibrated back to the WPB SAA. Hence, the applicable risk band of each reference portfolio remains consistent with its risk profile. This figure is dynamic and will vary.

Risk



The recommended risk bands are calibrated based on the portfolio risk profile of each WPB SAA, whilst the current risk represents the portfolio risk of your Portfolio.

Source: Numbers used are just for illustrative purpose only, based on a hypothetical portfolio. Please refer to the important notes section at the end of this booklet for further details

How asset allocation helps

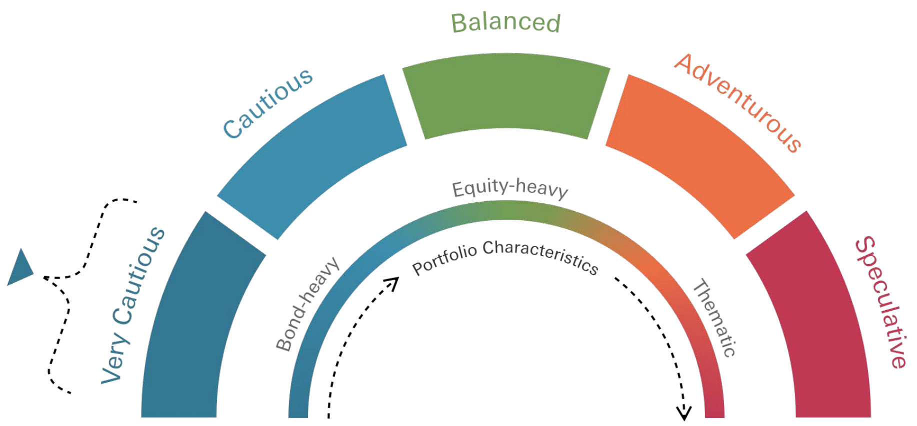
- Constructing a diversified portfolio may help investors capture potential growth while managing risk of severe losses in highly volatile markets. At the heart of building a diversified portfolio is asset allocation, which involves identifying and investing in asset classes based on an individual's investment goals, risk tolerance and time horizon. By allocating investments into different asset classes, a diversified portfolio provides better risk-adjusted returns than holding only one type of investment as different asset classes perform differently in different market conditions.
- Asset allocation takes into account the estimated return and correlation of different asset classes, so as to optimize the portfolio risk-adjusted returns. Since equities and bonds each have a different level of risk and expected return, they tend to behave differently in response to changes in the financial markets. A diversified portfolio is therefore typically composed of a mix allocation of stabilization oriented bond investments and growth oriented investments such as equities. The allocation mix of both can potentially bring a better balance of investment portfolio in terms of expected return and volatility. These form the asset allocations for each reference portfolio risk profile as defined by their target volatility bands.

Important information about reference portfolios

- Reference portfolios are constructed based on a combination of several factors, including the historical as well as the expected volatility and return given the current investment outlook for each asset class.
- Below are detailed description of each available reference portfolio based on the WPB SAA. For each asset class, a reference allocation is provided. You should carefully consider the features, asset allocations and risks associated to each WPB SAA reference portfolio in light of your Customer Risk Profile.
- The reference portfolios will be reviewed and updated periodically, usually on a quarterly basis. You should regularly visit our public website page dedicated to the HSBC Prism Advisory at https://www.hsbc.com.hk/wealth-management/hsbc-prism-advisory/ where we publish the latest updated reference portfolio allocations.
- Asset allocations to Multi asset and Others are 0% for all reference portfolio risk profiles. The risk and return characteristics of these asset classes were not considered in the optimization process for SAAs. Allocations to these asset classes may still be deemed appropriate up to a 10% allocation respectively.
- The asset class "Others" may include CBBC, warrants and mutual funds where these instrument's exposures and risk/return behaviors are not reflected by any other asset class.

Portfolio risk profile - Very Cautious

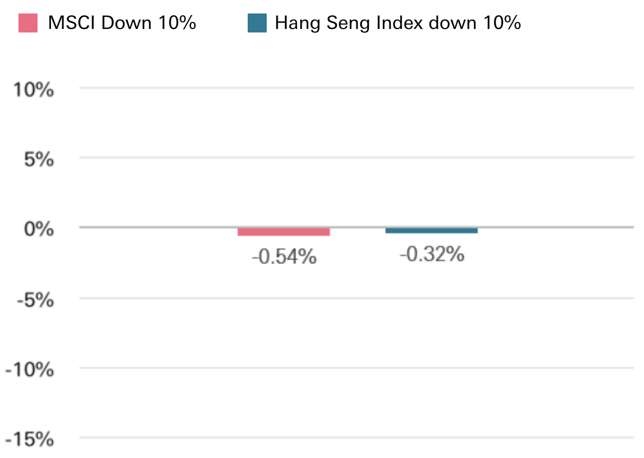
- You are generally comfortable with achieving minimal level of return potential on your investment coupled with minimal risks.
- Capital values of products that are potentially suitable for you can fluctuate and may fall below your original investment. In normal market conditions fluctuation is expected to be minimal (although this is not guaranteed), and you are comfortable with this level of fluctuation.



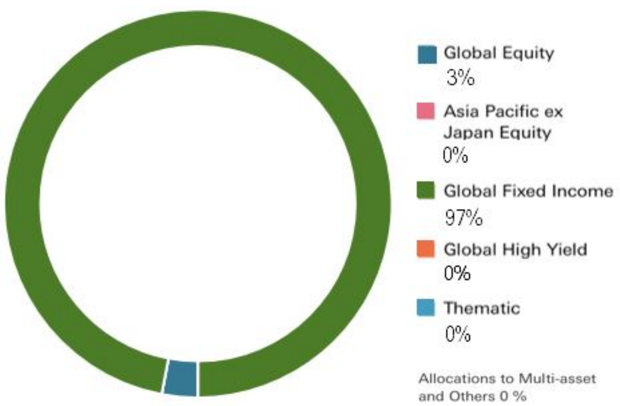
Illustrative data for the Strategic Asset Allocation

Forecast return	3.50%
Expected Volatility	3.56%
Reference volatility band	0% - 5.50%

Stress tests



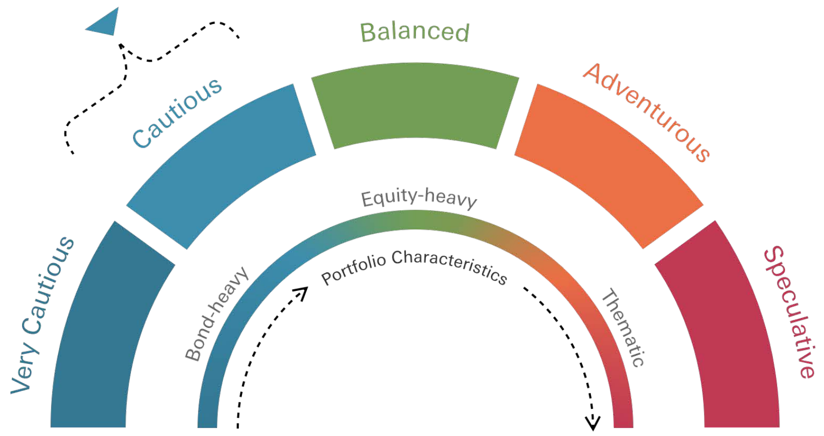
Strategic Asset Allocation



Source:
The Hongkong and Shanghai Banking Corporation Limited.
Forecast return and expected volatility are as of Oct 2023. Reference volatility band is as of Oct 2023. Please refer to “Important Notes” for more details

Portfolio risk profile - Cautious

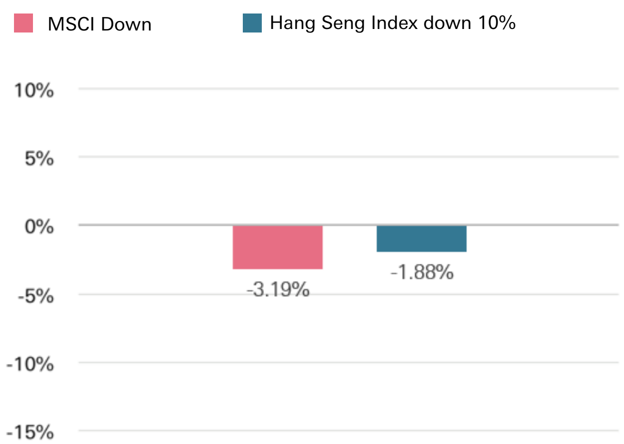
- You are generally comfortable with achieving a low level of return potential on your investment coupled with a low level of risk.
- Capital values of products that are potentially suitable for you can fluctuate and may fall below your original investment. In normal market conditions fluctuation is expected to be low (although this is not guaranteed), and you are comfortable with this level of fluctuation.



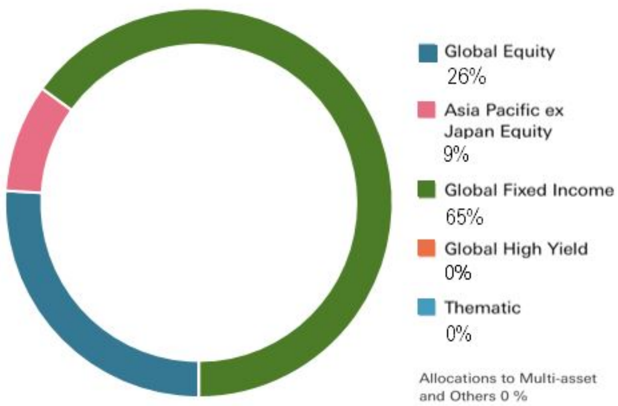
Illustrative data for the Strategic Asset Allocation

Forecast return	4.50%
Expected Volatility	6.22%
Reference volatility band	5.55% - 8.26%

Stress tests



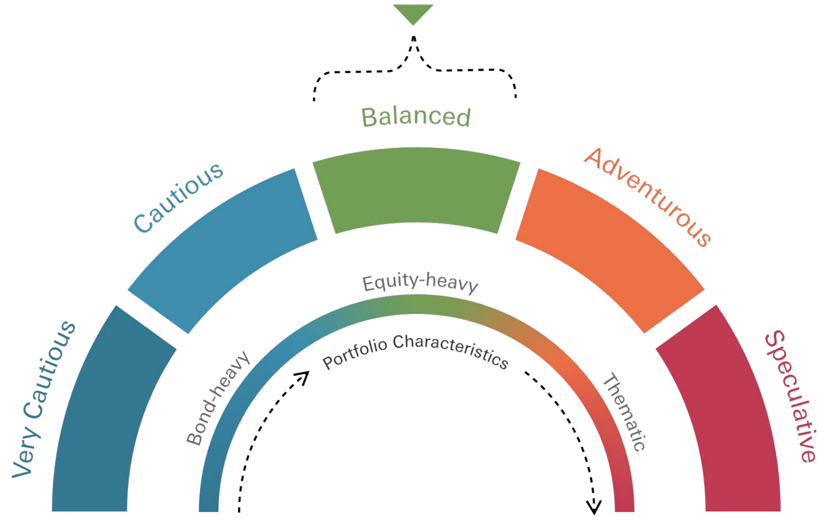
Strategic Asset Allocation



Source:
The Hongkong and Shanghai Banking Corporation Limited.
Forecast return and expected volatility are as of Oct 2023. Reference volatility band is as of Oct 2023. Please refer to “Important Notes” for more details

Portfolio risk profile - Balanced

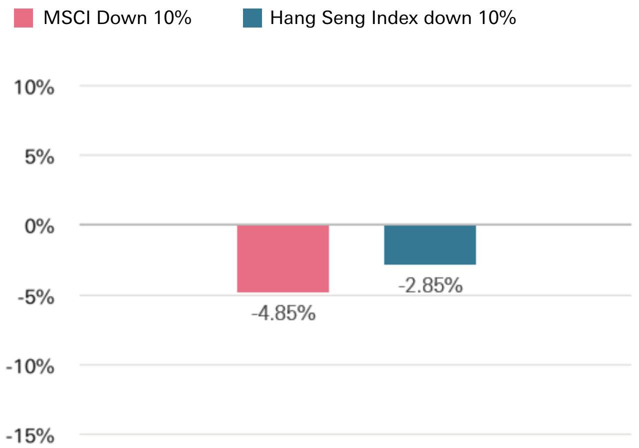
- You are generally comfortable with achieving a moderate level of return potential on your investment coupled with a moderate level of risk.
- Capital values can fluctuate and may fall below your original investment. Fluctuation is expected to be higher than products that are suitable for investors in lower risk tolerance categories, but not as much as for higher risk tolerance categories.



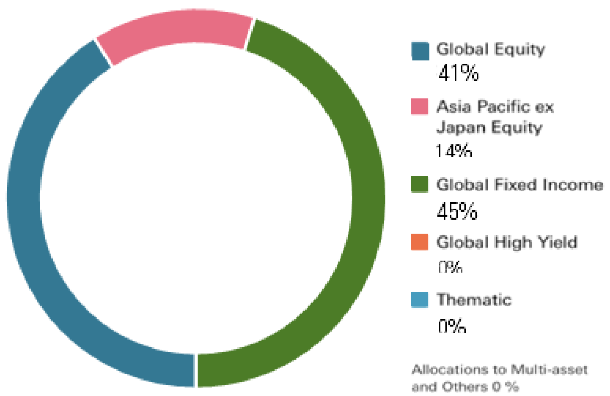
Illustrative data for the Strategic Asset Allocation

Forecast return	5.10%
Expected Volatility	8.94%
Reference volatility band	8.26% - 11.62%

Stress tests



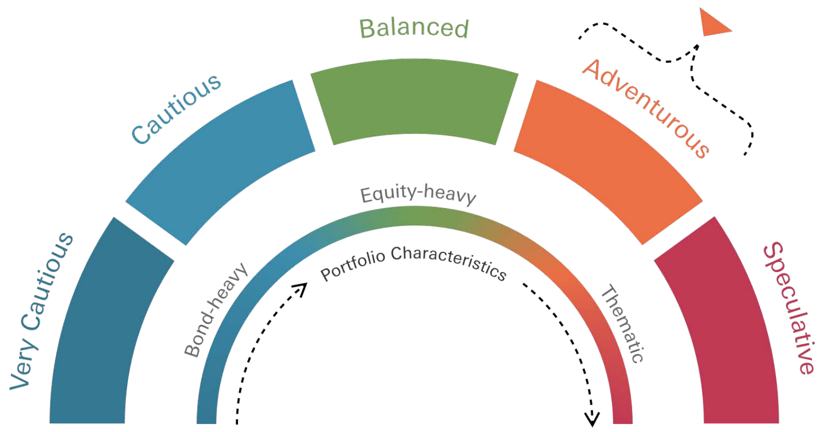
Strategic Asset Allocation



Source:
The Hongkong and Shanghai Banking Corporation Limited.
Forecast return and expected volatility are as of Oct 2023. Reference volatility band is as of Oct 2023. Please refer to "Important Notes" for more details

Portfolio risk profile - Adventurous

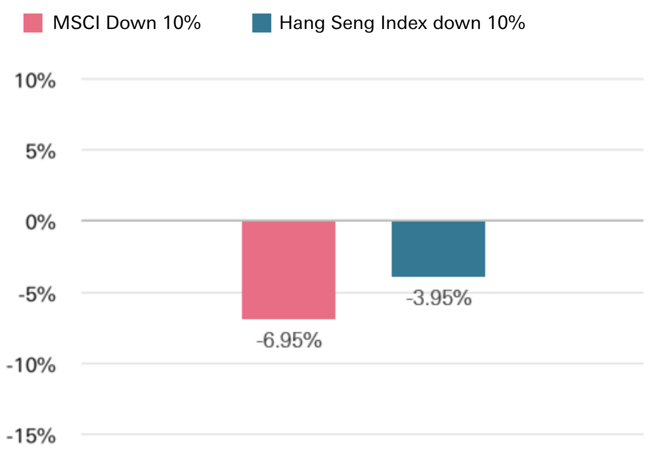
- You are generally comfortable with achieving a high level of return potential on your investment coupled with high level of risk.
- Capital values can fluctuate significantly and may fall quite substantially below your original investment. You understand the risk/reward equation, and are comfortable with this level of fluctuation.



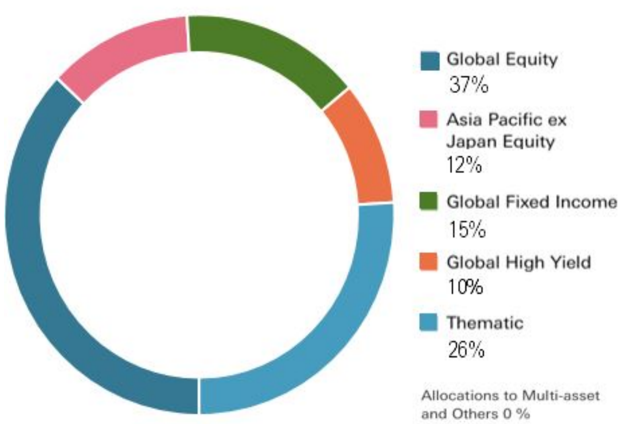
Illustrative data for the Strategic Asset Allocation

Forecast return	5.90%
Expected Volatility	12.51%
Reference volatility band	11.62% - 14.22%

Stress tests



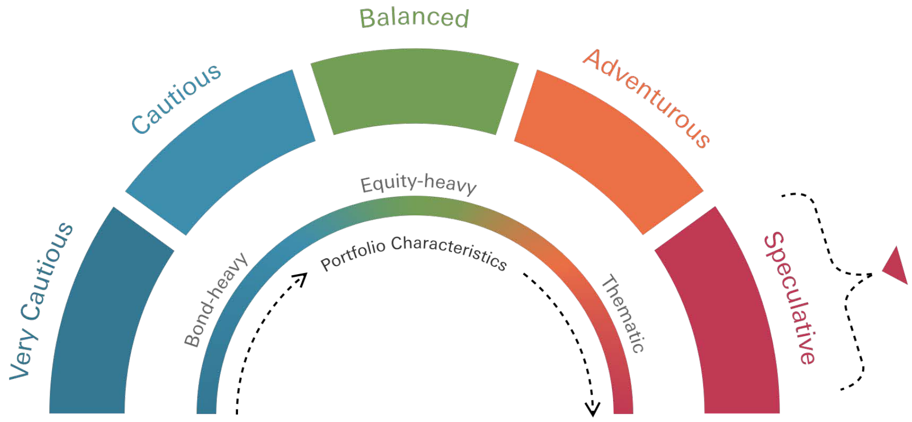
Strategic Asset Allocation



Source:
The Hongkong and Shanghai Banking Corporation Limited.
Forecast return and expected volatility are as of Oct 2023. Reference volatility band is as of Oct 2023. Please refer to "Important Notes" for more details

Portfolio risk profile - Speculative

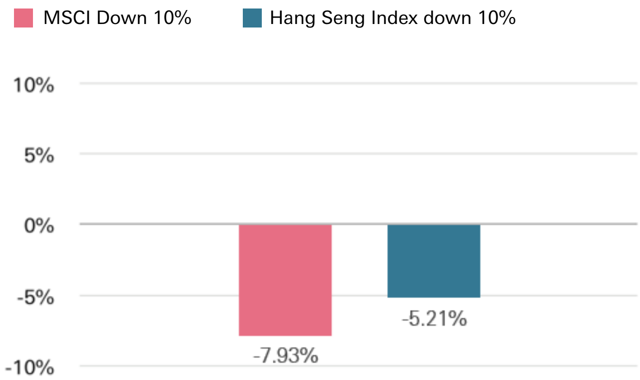
- You are generally comfortable with maximizing your return potential on investment coupled with maximized risk.
- Capital values can fluctuate widely and may fall substantially below your original investment. You understand the risk/reward equation, and are comfortable with this level of fluctuation.



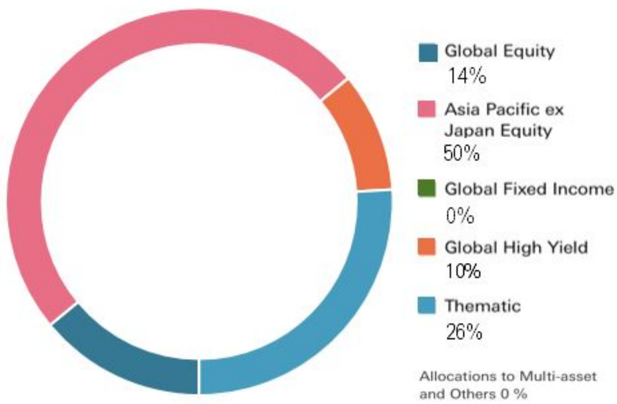
Illustrative data for the Strategic Asset Allocation

Forecast return	6.60%
Expected Volatility	14.80%
Reference volatility band	>14.22%

Stress tests



Strategic Asset Allocation



Source:
The Hongkong and Shanghai Banking Corporation Limited.
Forecast return and expected volatility are as of Oct 2023. Reference volatility band is as of Oct 2023. Please refer to “Important Notes” for more details

Forecast return of each asset class

The forecast return of each core asset class is as below

Asset class	Reference Index	Forecast return
Global Equity	MSCI AC World	7.40%
Asia Pacific ex Japan Equity	MSCI Asia Pacific ex Japan	8.00%
Global Fixed Income	Barclays Global Aggregate Bond	4.10%
Global High Yield	ML BB-B Global High Yield Bond	5.10%
Thematic	MSCI World	8.20%
	MSCI ACWI Small Cap	
	Barclays Global Aggregate Corporate	
	FTSA EPRA/NREIT Developed Index	

Source:
The Hongkong and Shanghai Baning Corporation Limited as of Oct 2023. Please refer to “Important Notes” for more details.

Important Notes

Portfolio risk - Expected volatility

Your portfolio risk is an annualized volatility of your Portfolio return which is a one-standard deviation confidence level based on the equally weighted monthly historical returns with an observation period beginning in March of 2008 to the present. The return is calculated based on the combination of the individual risk factor exposures and correlations of applicable risk factors from each holding. The volatility takes into account standalone holding as well as correlations across your holding to capture the diversification impact.

A product proxy method may be used instead of the actual product(s) risk, whenever complete product(s) information is unable to be obtained due to system limitations. Although we consider the use of proxies to be a reasonable basis on which to calculate Expected Volatility, this will not be as accurate as basing this on the actual investments in your Account.

Although we believe our risk model is supported by the necessary risk analytics to assess portfolio risk and support your investment decisions, the output (e.g. portfolio volatility) should not be relied on as an indicator of future investment performance. Market movements are unpredictable therefore the actual performance of investments in your Account may differ.

Cash and structured products are not included in the portfolio risk calculation. The volatility calculated on in-scope securities in your portfolio may be different had we included cash and structured products.

Forecast return and expected volatility

Forecast return and Expected volatility information for every risk profile or every asset class presented in this document is for illustrative purposes only and should not be relied on as an indicator of future performance. The value of investments can go down as well as up and you may not get back the full amount invested. Actual investment performance may differ materially to that presented. Further, where performance information is presented this does not take into account the effect of fees, commissions or other charges.

Thematic asset class allocation and Forecast return is 5% Sustainable Investments (modelled as 50% Global Equity 50% Global Corporate Bond), and the balance ex Sustainable Investments modelled as 50% Global Equity Small Cap / 50% Global property.

Illustrative stress test

The stress test scenarios estimate portfolio impact based on a factor-based model by examining the impact of a shock to different risk factors in order to represent particular market scenarios. The type of risk factors and degree to which they are shocked will vary from scenario to scenario. Examples of risk factors include, among others, equity risk, interest rate risk and credit risk. To measure the potential impact, the model applies the pre-defined factor shocks to the overall factor model, incorporating the correlations between the factors. The impact on the portfolio of the scenario can then be estimated from the exposures of the portfolio to each relevant factor. As a statistical estimate of the portfolio's reaction to a stress scenario, the stress test result should not be relied on as an indicator of future performance. Actual investment performance may differ materially to that presented. Therefore, such information is for illustrative purposes only.