HSBC Asset Management

UNEP - FI
Asset Management Working Group

Paris, 16 June 2004
Our objective:

To provide our clients with the right combination of a positive investment policy and a level of financial performance which meets their expectations.
HSBC Asset Management

SRI - overview

- Investment universe
  - MSCI Europe
  - LB Euro Aggregate 500 MM

- SRI filter

- Reduced universe

- Bonds investment process
- Equities investment process
HSBC Asset Management

Our SRI information sources

Traditional sources
• Buy-side sectoral analysts
• Factiva / Reuters Business Briefings
• Brokers

Meetings with companies

External sources
• SRI corporate reports
• UN Asset Management Working Group
  • ONG
  • ORSE

SRI analyst

• HSBC AME vision
• Qualitative appreciation of companies
• SRI sector summaries
Bond fund management process
HSBC Asset Management

Bond fund management process

Investment universe: ‘Investment Grade’ issues in euro
Lehman Brother Euro Aggregate 500MM: +/- 1 700 stocks

- Government issues +/- 70%
  - World Bank data
  - Qualitative + quantitative
  - Quantitative filter

- Private issues +/- 30%
  - Monitored by Vigeo
  - Qualitative + quantitative
  - Not monitored by Vigeo
  - Purely qualitative
  - Qualitative filter

Phase 1: SRI filter

Phase 2: Financial filter

HSBC AM fund manager & analyst
Qualitative appreciation

Real SRI portfolio
40 – 60 stocks
Analysis of sovereign issues

• An analysis which differentiates developed countries from emerging countries for a consistent comparison between issuers.

**Group 1: Most industrialised countries**

**EMU member states:** Germany, Austria, Belgium, Spain, Finland, France, Greece, Ireland, Italy, Netherlands, Portugal,

**Outside the eurozone:** Canada, Denmark, UK, Sweden

**Group 2: Peripheral European countries***

Croatia, Hungary, Poland, Slovakia, Cyprus, Slovenia

* list likely to be changed
HSBC Asset Management

Analysis of sovereign issues

World Bank
Database: 18 criteria and 554 indicators

Exclusion of indicators:
- subject to controversy
- information not available for at least 80% of eligible countries

Selection of 54 indicators, subject to consensus, which are grouped according to 9 criteria

Population
- Demography
- Employment
- Poverty and distribution of wealth
- Education
- Health

Environment
- Ground usage and agricultural production
- Production and energy usage
- Urbanisation
- Pollution and CO2 emissions
- Budget

Economy
- Government finances
- Corruption
- Changes in prices
- Arms
- Transport and communication
- Information and technology
- Development aid
- Workforce and foreign population

- We reserve the right to activate some of the excluded criteria in dedicated mandates, to meet our clients’ specific requirements.
Analysis of the peripheral European countries:

– The evaluation is based on the same approach as for the more industrialised countries

– The analysis takes into account the “Millenium Development Goals” criteria which are specific to the evaluation of the peripheral European countries:

<table>
<thead>
<tr>
<th>1-Eradicate extreme poverty and famine</th>
<th>5-Improve maternal health</th>
</tr>
</thead>
<tbody>
<tr>
<td>2-Ensure that all children go to primary school</td>
<td>6-Fight against Aids, malaria and other diseases</td>
</tr>
<tr>
<td>3-Promote sexual equality</td>
<td>7-Promote environmental conservation</td>
</tr>
<tr>
<td>4-Reduce infant mortality</td>
<td>8-Initiate a development partnership</td>
</tr>
</tbody>
</table>
HSBC Asset Management

Analysis of private issues: the decision-making process

1st quantitative filter
- Weighting of the criteria:
  - human resources (35%)
  - environmental policy (35%)
  - client-supplier relations (10%)
  - community involvement (10%)
  - corporate governance (10%)

2nd qualitative filter (HSBC AM)
- Qualitative in-depth analysis of the ratings
- Meetings with companies
- Analysis of their communications
- Feedback in the media

Wide analysis universe
- applicant stocks
- stocks being monitored
- reference stocks

Qualitative filter (HSBC AM)
- Qualitative analysis using the same approach as is used by Vigeo (over-weighting of human resources and environmental policy criteria)
- Meetings with companies
- Analysis of their communication
- Feedback in the media

Universe covered by VIGEO

Universe not covered by VIGEO

+/-700 corporate credit stocks (+/-30% of the capitalisation of LB Euro Aggregate)

Reduced SRI universe
Financial management process - Investment Grade bonds

Global strategy

Global duration Committee
Global exchange committee
Global credit committee

European fixed income management team (ex UK)

Global duration strategy
Global exchange strategy
Global credit strategy

Tactical duration allocation
Positioning on the curve
Tactical exchange allocation
Tactical credit allocation

In-house scenario Econometric models
In-house scenario Econometric models
In-house scenario Econometric models
In-house scenario Econometric models

Global economic research

Global Credit Research Group

Global research

Basic trends
Credit analysis Evaluation models

Global Credit Research Group

HSBC Asset Management
**HSBC Asset Management**

**The 4 steps of the investment process (1/2)**

### Step 1: Definition of the global strategy for duration and credit allocation

- **Macroeconomic and quantitative global research**
  - Head: J. Dunsford / G. Rabault
  - Review of key factors and economic forecasts
  - Internal economic scenario
  - Econometric valuation models

- **Global Duration Committee**
  - Head: J. Dowding
  - Monthly output: Global duration strategy

- **Global Credit Committee**
  - Head: F. Rollin
  - Monthly output: Global credit strategy

- **Macroeconomic and quantitative global research**
  - Head: J. Dunsford / G. Rabault
  - Review of key factors and economic forecasts
  - Internal economic scenario
  - Econometric valuation models of spreads

### Step 2: Definition of the local strategies for duration and curve, credit allocation, sectors and securities

- **Macroeconomic and quantitative global research**
  - Head: J. Dunsford / G. Rabault
  - Review of economic statistics of the last and next week
  - Commentary on Central Bank policies

- **Local Duration Committee**
  - Head: F. Rollin
  - Weekly output:
    - Adaptation of the global duration strategy
    - Curve strategy

- **Local Credit Committee**
  - Head: F. Rollin
  - Weekly output:
    - Adaptation of the global credit strategy
    - Sector selection
    - Issuer selection

- **Macroeconomic and quantitative global research**
  - Head: J. Dunsford / G. Rabault
  - Review of key factors and economic forecasts
  - Internal economic scenario
  - Econometric valuation models of spreads

- **Credit research**
  - Head: X. Baraton
  - Sector review
  - Analysis of issuers (complete analysis and follow-up)
  - Analysis of valuations in relative value (Capital Structure Program and Standard Spreads models)
  - Portfolio review
  - Recommendations per sector and issuer

- **Daily fund management meeting**
  - Head: F. Rollin
  - Daily adaptation of the strategy according to market events

**Investment decisions**